IN THE UNITED STATES COURT OF FEDERAL CLAIMS

STARR INTERNATIONAL COMPANY,)
INC., Individually and on)
Behalf of All Others)
Similarly Situated,)
Plaintiffs,) Case No. 11-779C
vs.)
UNITED STATES OF AMERICA,)
Defendant.)
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Courtroom 4
Howard T. Markey National Courts Building
717 Madison Place, N.W.
Washington, D.C.
Friday, October 10, 2014
9:30 a.m.
Trial Volume 10

BEFORE: THE HONORABLE THOMAS C. WHEELER

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Susanne Bergling, RMR-CRR-CLR, Reporter

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I N D E X

WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS	VOIR
BERNANKE	2105	2158	2250	2286	
LATORRE		2294	2341		

EXHIBITS	FOR ID	IN EVID
Plaintiffs'		
Number11		2250
Number15		2250
Number200		2116
Number201		2116
Number220		2122
Number339		2250
Number361		2250
Number393		2250
Number406		2114
Number447		2250
Number449		2250
Number459		2340
Number466		2250
Number482		2250
Number491		2250
Number553		2143

EXHIBITS	FOR ID	IN EVID
Plaintiffs'		
Number561		2250
Number650		2250
Number680		2284
Number718		2348
Number728		2250
Number733		2250
Number1041		2142
Number1201		2112
Number1212		2250
Number1833		2115
Number2179		2284
Number2297		2125
Number2554		2121
Defendant's		
Number270		2191
Number303		2299
Number664		2287
Number666		2334
Number979		2233
Number980		2328
Number1444		2207
Number1611		2238

Joint
None

*All exhibits premarked for identification prior to trial.
*See full attached list of admitted exhibits following transcript.

P R O C E E D I N G S

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(Proceeding called to order, 9:31 a.m.)

THE COURT: We're on the record in the trial of Starr International Company versus the United States, which is now trial day 10.

Good morning, Dr. Bernanke.

THE WITNESS: Good morning.

THE COURT: Do you understand you're still under oath in these proceedings?

THE WITNESS: Yes, Your Honor.

THE COURT: All right. Let's go ahead.

MR. BOIES: Thank you, Your Honor.

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Whereupon --

BEN S. BERNANKE

a witness, called for examination, having been previously duly sworn, was examined and testified further as follows:

DIRECT EXAMINATION (cont.)

BY MR. BOIES:

Q. Good morning, Mr. Bernanke.

A. Good morning.

Q. Before we broke yesterday, you were talking about the extent to which, if any, the Federal Reserve had a binding agreement with AIG as of September 17, 2008. Do you recall that generally?

A. Yes, sir.

Q. Now, on September 16, the Federal Reserve had transferred approximately $14 billion to AIG; correct?

A. Yes, sir.

Q. And over the course of the next few days, prior to September 22, another $23 billion were transferred; correct?

A. I don't recall.

Q. Do you recall that as of the end of September 21, there were $37 billion that had been advanced to AIG?

A. I'll take your word, sir, but I don't recall the number.

Q. And all of the money that was advanced prior to September 22 was advanced pursuant to secured demand notes; correct?

A. I don't understand, sir.

Q. When the Federal Reserve advanced money to AIG prior to September 22, what did the Federal Reserve get back in return for that money?

A. I don't know.

Q. Did you ever try to find out?

A. No, sir.

Q. Did the Federal Reserve Board of Governors ever

authorize the Federal Reserve Bank of New York to loan money to AIG before there was a binding agreement?
A. I don't recall.
Q. Did the Federal Reserve Board of New York ever authorize the Federal Reserve Bank -- I misspoke there. I said "the Federal Reserve Board of New York."
You are chairman of the Federal Reserve Board of Governors; correct?
A. I was, yes, sir.
Q. Did the Federal Reserve Board of Governors ever authorize the Federal Reserve Bank of New York to loan money to AIG before there was a binding agreement with respect to the equity compensation that we talked about earlier?
A. Sir, you're asking me about legal details of the agreement that I simply do not know.
Q. No. Right now I'm asking you about what the Federal Reserve Board of Governors did or did not authorize.
On September 16, the Federal Reserve Board of Governors authorized a $85 billion credit facility for AIG; correct?
A. Yes, sir.
Q. And in return for that credit facility, the Federal Reserve was going to get certain compensation;

correct?
A. Yes, sir.
Q. And you've testified that that compensation included equity; correct?
A. Yes, sir.
Q. Did the Federal Reserve Board of Governors ever authorize any loan to AIG without a binding agreement to receive equity compensation?
A. I don't think the issue came up in those terms. What we authorized is what's stated in the resolution.
Q. Yes. And I'm trying to get your understanding of that resolution.
Did you believe that that resolution authorized the Federal Reserve Bank of New York to lend money to AIG without a binding agreement to receive equity compensation?
A. My understanding was there had been an agreement, that the board of AIG had accepted the terms, subject to further filling in details. Again, I'm not a lawyer, but my perception was that that was sufficient agreement to allow the loan to be made.
Q. My question is, did you, as chairman of the Federal Reserve Board of Governors, believe that the resolution that was passed on September 16, 2008 authorized the Federal Reserve Bank of New York to lend

money to AIG without a binding agreement to receive equity compensation?

A. My understanding was that the agreement reached on Tuesday night was sufficiently secure that the loan could be made. It obviously was an emergency situation.

Q. My question is not what your understanding of the agreement was, because you've said you're not a lawyer.

A. Correct.

Q. I'm simply asking you for your understanding of what you authorized. Do you understand that?

A. Yes. But this particular issue didn't come up, and I don't -- I can't say what we authorized since I don't recall discussing the issue.

Q. The question I have is a simple one, and that is whether the Federal Reserve Board of Governors on September 16 authorized the Federal Reserve Bank of New York to loan any money to AIG without a binding commitment to receive equity in compensation. That could be yes, no, or I don't know.

MR. DINTZER: Objection, Your Honor.

To the extent he's asking about what the witness knew back then, I believe the witness has clearly testified about it. And it -- counsel is not making clear whether his time frame is from back then or now. But regarding back then, I believe the witness has answered the question.

THE COURT: I'm going to sustain the objection. I think I have the witness' testimony about, you know, what he's able to tell us from that time period.

Some of this is starting to get a little cumulative I think.

MR. BOIES: I think it is, Your Honor. But this, since he is the chairman of the Federal Reserve, I thought it was appropriate to ask him.

THE COURT: Well, certainly. And I give you wide latitude on this, but I think I understand the situation.

MR. BOIES: Thank you.

BY MR. BOIES:

Q. Did you ever ask for any written legal advice or opinion as to whether or not there was a binding agreement on September 16?

A. No, sir.

Q. On September 16, at the Board of Governors meeting, did the Federal Reserve Board of Governors approve a particular interest rate for the AIG loan?

A. Yes, sir. I believe so.

Q. Was it your understanding, on September 16, 2008, that the interest rate for a 13(3) credit facility had to be approved by five members of the Federal Reserve

Board of Governors?

A. Yes, sir.

Q. That was not something that could be delegated to the Federal Reserve Bank of New York; correct?

A. I would leave that to a legal opinion, sir. I don't know.

Q. With respect to your understanding as chairman of the Federal Reserve Board of Governors in September of 2008, was it your understanding that the interest rate for a 13(3) loan had to be approved by the Board of Governors and could not be delegated to anybody?

A. My understanding was that we were giving the Federal Reserve Bank of New York latitude to make adjustments to the term sheet as necessary, and I didn't have a strong view as to whether the interest rate was one of the things that could be adjusted.

Q. Would it have been consistent with your understanding, as chairman of the Federal Reserve Board of Governors, for the Federal Reserve Bank of New York to have changed the interest rate from the interest rate that was in the term sheet?

A. If the change had been modest and explained, if there had been a good reason for it. And again, I'm not a lawyer.

Q. But I'm just asking your understanding.
A. That's my understanding, yes.
Q. And your understanding is that they could have made that change without the approval of the Board of Governors.
A. Without formal approval, yes.
Q. Let me ask you to turn to the issue of some of the 13(3) credit facilities other than AIG. And in that connection, I would ask you to look first at Plaintiffs' Trial Exhibit 1201, which I believe is in the binder, and which I would offer.
A. I have it, sir.
MR. DINTZER: No objection, Your Honor.
THE COURT: Plaintiffs' Trial Exhibit 1201 is admitted.
(Plaintiff's Exhibit Number 1201 was admitted into evidence.)
BY MR. BOIES:
Q. Am I correct that these are the minutes of the Board of Governors of the Federal Reserve System meeting of March 14, 2008?
A. It appears to be so. Yes, sir.
Q. And you participated in this meeting; correct?
A. Yes.
Q. And it was at this meeting that the

Federal Reserve Board of Governors approved the New York Reserve Bank's recommendation that credit pursuant to 13(3) be extended to JPMorgan Chase to provide financing to Bear Stearns; correct, sir?
A. Yes, sir.
Q. And that financing was extended at the primary credit rate; correct?
A. I don't see it, but I'll take your word, sir.
Q. If you look at the top of page 3?
A. Yes, sir.
Q. Do you see that?
A. Yes, I do.
Q. Was this loan to JPMorgan Chase a recourse or a nonrecourse loan?
A. It was a nonrecourse loan.
Q. Let me ask you to look next at Plaintiffs' Trial Exhibit 406, which I believe is also in the binder.
A. I have it.
MR. BOIES: Which I would offer.
MR. DINTZER: Your Honor, we have no objection, but we will note that it is not signed on the signature pages, and so we're not sure what plaintiffs' counsel is identifying or representing that it is supposed to be, but we do not have any objection to it coming into evidence, as to whether he is asserting that this is a

final or a draft or a -- it's not -- but it is missing signature pages. That's all we note.

THE COURT: Well, without objection, Plaintiffs' Trial Exhibit 406 is admitted.

(Plaintiff's Exhibit Number 406 was admitted into evidence.)

BY MR. BOIES:

Q. Is this a document that you've seen before, sir?

A. I'm sure that I have. I don't recall specifically, but it would be something that I would be -- I would review.

Q. And these were periodic reports prepared pursuant to section 129; is that correct?

A. That's correct.

Q. And this would describe various loans and the status of those loans that were outstanding at a particular period of time; is that correct?

A. Yes, sir.

Q. And insofar as you were aware, these reports pursuant to section 129 were complete and accurate information; correct?

A. They were prepared by staff, but insofar as I was aware, yes.

Q. Let me ask you to look next at Plaintiffs' Trial Exhibit 1833, which I believe is also in the binder.

A. I have it.
MR. BOIES: Which I would offer.
MR. DINTZER: No objection, Your Honor.
THE COURT: Plaintiffs' Trial Exhibit 1833 is admitted.
(Plaintiff's Exhibit Number 1833 was admitted into evidence.)
BY MR. BOIES:
Q. This relates to the approval of American Express as a bank holding company; is that correct?
A. It appears to be so, sir.
Q. And you participated in that; correct?
A. Yes. Yes.
Q. What was the purpose of approving American Express as a bank holding company at the time that you did?
A. I actually don't recall this particular episode.
Q. Do you recall anything at all about the purpose of approving American Express as a bank holding company?
A. It had the effect of bringing the holding company under the supervision of the Federal Reserve.
Q. And do you have any recollection at all as you sit here now as to why you believed that that was desirable at the time?
A. Well, I'm clearer on the -- on other cases, which

you're quite aware of, of course, but I assume it was to try to provide additional measure of market confidence in the firm.

Q. And the other cases are Goldman Sachs and Morgan Stanley?

A. Yes, sir.

Q. Let me turn to those, and in that connection I would ask you to look at Plaintiffs' Trial Exhibits 200 and 201, both of which I would offer.

A. I have it.

MR. DINTZER: No objection, Your Honor.

THE COURT: All right. Plaintiffs' Trial Exhibits 200 and 201 are admitted.

(Plaintiff's Exhibit Number 200 was admitted into evidence.)

(Plaintiff's Exhibit Number 201 was admitted into evidence.)

BY MR. BOIES:

Q. And Plaintiffs' Trial Exhibit 200 is the order approving Goldman Sachs as a bank holding company; is that correct?

A. Yes, sir.

Q. And Plaintiffs' Trial Exhibit 2001 (sic) is the order approving Morgan Stanley as a bank holding company; correct?

A. 201, yes, sir.

Q. In this connection, let me ask you to look at Plaintiffs' Trial Exhibit 175, which is already in evidence and it is in the binder.

This is, as has been previously indicated in the record, an e-mail relating to a call that Mr. Geithner received the evening of September 19 from Morgan Stanley when Morgan Stanley told Mr. Geithner that Morgan Stanley would not be able to open the following Monday.

Were you aware of that call the weekend of September 20?

A. Not that I recall.

Q. Did anyone tell you in September of 2008 that Morgan Stanley was in financial trouble?

A. Morgan Stanley depended very heavily on the wholesale funding markets which were highly disrupted after the Lehman/AIG weekend, so we understood that they were having difficulty in the funding markets. Yes.

Q. Did there come a time in September of 2008 when you understood that the difficulty that Morgan Stanley was having in the funding markets threatened the firm with failure?

A. It was a risk. Yes, sir.

Q. Did there come a time in September of 2008 when you understood that Morgan Stanley faced a serious risk of failure?

A. I can't judge how serious it was, but it was meaningful.

Q. Did there come a time in September of 2008 when you understood that Morgan Stanley would not be able to open for business without some government assistance?

A. No, sir.

Q. Did you become aware in September of 2008 of what 13(3) lending was being made available to Morgan Stanley?

A. I was aware that they were a primary dealer and therefore had access to the facilities that we set up for primary dealers, such as the Primary Dealer Credit Facility.

Q. And did you have any understanding of how much Morgan Stanley had taken advantage of the 13(3) lending that was being made available to it?

A. There would be periodic reports, but I don't recall the number.

Q. Did you understand that without the liquidity provided by the 13(3) lending to Morgan Stanley, Morgan Stanley would not have been able to continue in business?

A. It is possible certainly.

Q. Did you try to make a judgment about that at the time?

A. No, sir. The Primary Dealer Credit Facility was put in place after Bear Stearns and it was part of a -- part of our overall effort to control the panic.

Q. Did there come a time when in addition to the Primary Dealer Credit Facility lending that was being made available to Morgan Stanley that the Federal Reserve Board of Governors authorized the extension of 13(3) credit to foreign subsidiaries of Morgan Stanley?

A. Yes, sir. On the same day.

Q. When you say "the same day," that would have been September 21, 2008?

A. I believe so. Yes.

Q. What I mean, it's the same day that they were approved for bank holding company status.

A. I believe so.

Q. And what was the purpose of permitting Morgan Stanley's foreign subsidiaries to have access to 13(3) credit?

A. To facilitate borrowing against that collateral without having to make complex transfers between foreign and domestic branches.

Q. And did you have an understanding at the time of the extent to which Morgan Stanley took advantage of the 13(3) lending to its foreign subsidiaries?

A. No, sir.

Q. Let me ask you to look at Plaintiffs' Trial Exhibit 2554, which I would offer.

A. I have it.

THE COURT: Any objection, Mr. Dintzer?

MR. DINTZER: Just one quick second, Your Honor.

THE COURT: Sure.

(Pause in the proceedings.)

THE COURT: While you're looking there, Ms. Acevedo, if you would like to -- if there's a seat there, come on in and sit down.

MR. DINTZER: My only concern, Your Honor, is one of completeness. And I'm not saying it's not complete, but I'm not sure it's complete. And I'm just doing that based on a comparison with PTX 406, which appears to be a similar-type document and just has a slightly different structure.

So if the Court will allow us to reserve an objection on completeness to the extent that if it may need pages added to make it complete, in which case with we'll work with the plaintiffs to do that --

THE COURT: I will conditionally admit the exhibit, that is, Plaintiffs' Trial Exhibit 2554, and if you find that there are some missing pages, you can notify the Court and we'll add them.

MR. DINTZER: I appreciate that. Thank you, Your Honor.

(Plaintiff's Exhibit Number 2554 was admitted into evidence.)

BY MR. BOIES:

Q. This is another report made pursuant to section 129; correct?

A. Yes, sir.

Q. And let me ask you to look at page 3, the next to last paragraph.

And this is a paragraph that's talking about the loan that the Federal Reserve made on March 14 in connection with the Bear Stearns transaction; correct?

A. Yes, sir.

Q. And the last sentence of this paragraph says, "The Federal Reserve Bank of New York received no warrants or any other potential equity of either JPMorgan Chase Bank or Bear Stearns in exchange for the loan."

Do you see that?

A. Yes, sir.

Q. And was that your understanding at the time?

A. Yes.

Q. Let me ask you to look next at Plaintiffs' Trial

Exhibits 198 and 220, which I would offer.

MR. DINTZER: No objection on either one, Your Honor.

THE COURT: All right. Plaintiffs' Trial Exhibits 198 and 220 are admitted.

(Plaintiff's Exhibit Number 220 was admitted into evidence.)

MR. DINTZER: And for the record, Your Honor, it's our understanding 198 is already in.

THE COURT: Okay. I think that's true.

MR. BOIES: I apologize, Your Honor.

BY MR. BOIES:

Q. Plaintiffs' Trial Exhibit 198 is a Federal Reserve press release on September 21, 2008, announcing that Goldman Sachs and Morgan Stanley had been approved to become bank holding companies; correct?

A. Yes, sir.

Q. And Plaintiffs' Trial Exhibit 220 is a press release the next day that says, based on consultation with the Department of Justice, the Federal Reserve Board announced that the transactions making those two companies bank holding companies could be consummated immediately without the normal waiting period; correct?

A. Yes, sir.

Q. And did the Federal Reserve ask the

Justice Department to permit a waiver of that waiting period?

A. I had no personal knowledge.

Q. Let me ask you to look at Plaintiffs' Trial Exhibit 379 that's already in evidence.

This is another report pursuant to section 129.

A. I have it.

Q. And let me direct your attention to page 3, where it's talking about a $306 billion guarantee provided to Citigroup.

Do you see that?

A. Yes, sir.

Q. And this was a guarantee that the Federal Reserve participated in pursuant to its 13(3) authority; correct?

A. Correct.

Q. And I want to be sure that I understand how this worked.

First, Citigroup had to accept the first loss, that is, they had in effect a deductible, of $37 billion; correct?

A. I'm not sure about the number, but yes, the first loss.

Q. Let me -- let me ask you to look at Plaintiffs' Trial Exhibit 2297, which --

MR. DINTZER: Counsel is saying 2297 or 297?

MR. BOIES: I believe it's 2297, which I will hand up.

THE WITNESS: I don't appear to have that, sir.

MR. BOIES: And which I would offer.

MR. DINTZER: Your Honor, we object based on hearsay grounds regarding the second- -- we understand that it's the court's conclusion that this is a government report, but it does contain secondary and tertiary hearsay.

THE COURT: Mr. Boies?

MR. BOIES: Your Honor, it is a government report, and I would be prepared, as I have with other exhibits, to have quotations from nongovernment personnel treated as admitted for purposes of context and not for the truth of the matter asserted. I think with respect to the conclusions of the report or statements by government personnel, those can be admitted for the truth of the matter asserted, but I would limit the offer with respect to the statements attributed to nongovernment personnel for purposes of providing context.

THE COURT: I will accept Plaintiffs' Trial Exhibit 2297 into evidence with those restrictions.

MR. DINTZER: Thank you, Your Honor.

(Plaintiff's Exhibit Number 2297 was admitted into evidence.)

BY MR. BOIES:

Q. This is a report that you're familiar with; correct?

A. I don't know whether I read it or not, sir.

Q. Did you see it at or about the time that it was published?

A. I don't recall.

Q. Let me go to page 30, where it talks about the government term sheet as of November 23, 2008?

A. Yes, sir.

Q. And as you understand it, is that an accurate description of the terms of the $306 billion guarantee given to Citicorp?

A. The government term sheet at the bottom, the bottom one seems correct.

Q. And that shows that the Citigroup deductible or first loss position was a total of $37 billion; correct?

A. Yes, sir.

Q. And then losses in excess of $37 billion would be shared 90 percent by the government and 10 percent by Citigroup; correct?

A. If I could just qualify that just a bit, the -- once the losses were down to the point where the

Federal Reserve Bank of New York had to make a loan, the Federal Reserve Bank of New York was making a loan equal to 90 percent of the value, so beyond the Citigroup, Treasury and FDIC components, the next 10 percent of losses would essentially be borne by Citigroup because at that point the loan would still be fully collateralized.

So it's not quite what you've described it, I believe.

Q. Well, let me just ask you.

The second sentence here says "Losses in excess of Citigroup's deductible shared by the government (90 percent) and Citigroup (10 percent)."

Do you see that?

A. I do.

Q. Do you believe that that was an accurate statement?

A. Not if the government includes the Federal Reserve. I -- for the reasons I just explained.

Q. The paragraph goes on to say "Treasury to accept the second loss position up to $5 billion."

Do you see that?

A. Yes, sir.

Q. And then it says "FDIC to accept the third loss position up to $10 billion."

Do you see that?
A. Yes, sir.
Q. And then it says "Federal Reserve Bank of New York to provide a nonrecourse loan equal to the 90 percent of the value of the remaining assets in the pool at the Overnight Index Swap Rate plus 300 basis points after the first $56 billion in losses."
Do you see that?
A. Yes, sir.
Q. So that after $56 billion of losses, the Federal Reserve Bank of New York bears 90 percent of any additional losses; correct?
A. I don't think so, sir. It's not a major point, but if you lend $90 against $100 of collateral and the value of the collateral drops to 90, you have lost no money.
Q. Let me just try to put the question simply.
After $56 billion of losses with respect to this Citigroup $306 billion guarantee, the way you understood it was that the Federal Reserve Bank of New York bears 90 percent of any additional losses; correct?
A. No, sir.
Q. Let me ask you to look at your deposition.
A. I've looked at -- I may have said that, but I -- I've looked at this now and I tried to think about the

economics, and it doesn't appear correct to me. But I'm willing to agree that the Federal Reserve would bear some losses after the Treasury and FDIC had borne their share.

Q. Let me just for the record go first to your deposition at page 254. And I'd like you to look at pages 252 and 253 because I'm going to start on page 253 for context. And when you've had a chance to review this for context, please let me know.

A. No. I recognize that I said what I said, that the Federal Reserve Bank of New York would bear 90 percent of the losses, but on reflection and thinking about the terms, I think that's not quite right, but I don't think it's -- it doesn't deny that the Federal Reserve Bank of New York would bear some losses if the losses were sufficiently large.

Q. Let me turn to another subject.

On September 16, 2008, at the Board of Governors meeting, was there ever a consideration at that meeting of what the total interest rate charged AIG was going to be?

A. I don't recall.

Q. I think you've said that you don't recall whether there was any discussion of what the total compensation for the AIG loan was going to be at that meeting;

correct?

A. Yes, sir.

So if you're asking about -- therefore, if you're asking just about the rates that were in the resolution, then we did discuss that.

Q. Now, I was asking here just about the interest rate.

A. Yes, sir.

Q. And there were various components to that interest rate; correct?

A. Correct.

Q. And did you understand that those components added up to a total interest rate of 14.5 percent?

A. I don't think so. Or at least I don't recall.

Q. What was the interest rate that you thought all the components of the interest rate added up to?

A. I don't know how you add together undrawn and drawn. How would you do that?

Q. I wouldn't have added up undrawn and drawn. I would have added up drawn plus committed -- commitment fees and things like that, as you would; correct, sir, to come to the total interest rate?

A. Commitment fees would have to be amortized over the life of the loan, so on. No, I didn't do that calculation.

Q. And just so the record is clear, a commitment fee can be of two kinds. It can be a one-time commitment fee --
A. Uh-huh.
Q. -- or it can be a commitment fee that is -- reoccurs every year; correct?
A. Yes.
Q. And indeed, I guess it could actually reoccur more frequently than a single year; correct?
A. It could.
Q. And in order to come up with a total interest rate on a loan, you have to look at the drawn rate as well as any other fees, and if they are annual fees, they will be added in, and if they are one-time fees, they will have to be amortized over the period of the loan; correct?
A. Yes, sir.
Q. At any point during the September 16 Board of Governors meeting, was any attempt made to determine what the total interest rate that AIG would be paying to the Federal Reserve would be?
A. Not that I recall.
Q. Let me turn to another subject.
None of the consideration that the Board of Governors or that you gave to how much

compensation to require for the AIG loan was a function of any conclusion that you or the Federal Reserve reached that AIG had somehow mismanaged its business or taken on excessive risks; correct, sir?

A. All we knew was that the company was in danger of failure.

Q. And so is the answer to my question that my statement was correct?

A. We didn't make any -- I did not make -- I should speak for myself. I did not make any personal judgments about the -- at that time about the quality of the management of AIG, but I did know of course that AIG was having difficulty making contractual payments.

Q. And I take it you also didn't make any judgment as to whether or not AIG had engaged in excessive risk taking; correct, sir?

A. Only to the extent it would be inferred from their difficulty in making their payments.

Q. And to the extent that there was or was not any such inference, that was not an inference that you took into account or gave any consideration to in determining how much compensation to require for the AIG loan; correct?

A. Not me personally, no.

Q. Insofar as you were aware, did anyone else at the

Federal Reserve reach any conclusion in September of 2008 as to whether AIG had somehow mismanaged its business or taken on excessive risks?

A. Well, there were certainly discussions of the Financial Products division, the CDO guarantees and the other activities that were contributing to the company's problems, but I'm not aware of any comprehensive analysis at that point that would resemble a supervisory report, no.

Q. I'm not limiting my question to simply comprehensive analyses.

Insofar as you were aware, did anyone at the Federal Reserve in September of 2008 reach any conclusion as to whether AIG had somehow mismanaged its business or taken on excessive risks?

A. I would think that a number of my colleagues were inferring that based on the margin calls and evidently the CDO insurance had not been necessarily well-managed, but, again, that didn't enter into my own thinking about the -- about the loan.

Q. You say, "I would think that a number of my colleagues were inferring."

Is that something that you are speculating on or do you know that?

In other words, did you ever see any analysis or any conclusion by anyone?

A. I'm inferring from the tone of e-mails and conversations, but I don't have any analysis to offer.

Q. Can you identify anyone at the Federal Reserve that you believe may have reached a conclusion that AIG had mismanaged its business or taken on excessive risks?

A. Well, Vice Chairman Kohn seemed to be concerned about the clarity of the firm's plans to deal with its problems.

Q. Other than Vice Chairman Kohn's concern about the clarity of the firm's plan to deal with its problems, can you identify anyone at the Federal Reserve that you believe may have reached a conclusion that AIG had mismanaged its business or taken on excessive risks?

MR. DINTZER: Objection, Your Honor.

Could we ask counsel to provide a time frame?

MR. BOIES: In September of 2008.

THE COURT: Thank you.

THE WITNESS: If you include after September of 2008, I think --

BY MR. BOIES:

Q. I just said in September of 2008.

A. I'm sorry. Sorry.

If you include after the loan was made within September, I think at that point that there were --

there was much more knowledge at the Federal Reserve Bank of New York and at the Board of Governors about the business activities of AIG and what the problems were that were bringing it close to default.

I don't think that the analysis -- analyses and the reports that would have been done would have been couched in the terms of necessarily of whether the firm had been mismanaged but would simply have been analyzing what the factors were that brought it to that point.

Q. I understand that, over time, the Federal Reserve would have gotten more and more information about AIG.

And as it got more and more information about AIG, it may very well have had more and more basis to make a judgment as to what had caused AIG's problems; correct?

A. Yes, sir.

Q. Let me focus first on September 2008 through September 22, and then I'll continue on.

With respect to the period through September 22, 2008, other than the concern that Vice Chairman Kohn had expressed about the possible lack of clarity with respect to AIG's plans, were you aware of any person who had reached any conclusion concerning whether or not AIG had mismanaged its business or taken on excessive risks?

A. I can't identify anyone.

Q. Now, in September after September 22, can you identify anyone at the Federal Reserve or in government that you believed reached a conclusion, in September, that AIG had mismanaged its business or taken on excessive risks?

A. I simply don't recall the period. No, I can't identify anyone.

Q. Okay. And is it fair to say that nothing that you or the Federal Reserve was doing with respect to AIG was based on a conclusion in September of 2008 that there was a basis to punish AIG or its shareholders for past conduct?

A. Speaking only for myself and not for my colleagues, I was taking only the fact that the company was on the brink of default and that our intervention would spare it the discipline of the market.

Q. Now, with respect to persons other than yourself, were you aware of any person at the Federal Reserve who believed or expressed the belief that the terms of the AIG loan should be an effort to punish AIG or its shareholders for past conduct?

A. Not that I recall.

Q. You may or may not have been aware of this in September of 2008, but you came to be aware at some point that AIG had stopped accepting additional CDS risks; correct?

A. Yes, sir.

Q. And as you understand it, when did AIG stop accepting additional CDS risks?

A. 2005.

Q. And when did you become aware of the fact that AIG had stopped accepting additional CDS risks in 2005?

A. It would have been at some point when during the various testimonies that included the OTS regulator, but I don't recall the specific date.

Q. And did you have an understanding as to why AIG in 2005 had stopped accepting additional CDS risks?

A. No, sir.

Q. Did you ever try to find out?

A. No, sir.

Q. In and after 2005 when AIG stopped accepting additional CDS risks, there were still a number of people who were expressing views that mortgage-backed securities did not pose substantial risks; correct?

A. Yes.

Q. And you were one of those people; correct?

A. I was referring to the risk to the broad financial system, not necessarily risk to investors in subprime mortgages.

Q. Let me ask you to look at Plaintiffs' Trial Exhibit 974, which I think I have to hand up.

THE COURT: I think it's in the book.

MR. BOIES: Thank you, Your Honor.

THE COURT: At least I have a copy of it.

MR. BOIES: Thank you, Your Honor.

I would offer Plaintiffs' Trial Exhibit 974.

THE WITNESS: Okay. I have it.

MR. DINTZER: Your Honor, my only concern is that the piece in the book, I can't tell if -- if it's just the witness' testimony or -- I can't even tell if it is the witness' testimony because it's cut off.

MR. BOIES: Your Honor, I will again limit my offer to statements by government personnel, and I will offer the portions that relate to statements by nongovernment personnel only for context.

MR. DINTZER: And --

THE COURT: I think Mr. Dintzer's problem has to do with the two-page excerpt you have provided, that you can't tell who's making the statements.

MR. DINTZER: Including whether it's the witness' statements.

THE COURT: Yes.

MR. DINTZER: Yes, Your Honor.

MR. BOIES: I'll hand out the entire exhibit, Your Honor.

THE COURT: All right.

BY MR. BOIES:

Q. While I'm doing that, Mr. -- Chairman Bernanke, can you tell whether the statement that's referenced there is your statement?

A. It may be.

Q. Let me give you the entire document.

MR. DINTZER: Also, Your Honor, just if the Court would indulge us for a second, the document looks different than what we have in our formal binder as document 974, so let us just have a moment if you would, please.

THE COURT: Sure. Go ahead.

(Pause in the proceedings.)

MR. BOIES: Can I inquire how it looks different just so I can check it, too?

(Pause in the proceedings.)

Your Honor, we have apparently two documents that bear the designation Plaintiffs' Trial Exhibit 974. No exhibit has been yet admitted with the designation 974, I believe.

(Pause in the proceedings.)

May I have just a moment, Your Honor?

THE COURT: Sure.

(Pause in the proceedings.)

Actually, in a document-intensive case such as this, it's surprising that this hasn't happened more often.

MR. BOIES: Thank you for your understanding, Your Honor.

Let me propose that we proceed in the following way.

I will use Plaintiffs' Trial Exhibit 974, the one that we have in front of us, for identification only at this point and ask the witness some questions about it. And then we will straighten out the numbering over a break, if that's acceptable to the Court.

THE COURT: I think that's fine.

MR. DINTZER: We're comfortable with that, Your Honor.

THE COURT: All right. Let's go ahead.

BY MR. BOIES:

Q. The document that you have in front of you is headed The Economic Outlook, Hearing before the Joint Economic Committee, Congress of the United States, October 20, 2005.

Do you see that?

A. Yes, sir.

Q. And did you give testimony at this hearing?

A. I will take your word for it. If I did so, it was as the chairman of the Council of Economic Advisers, not as the chairman of the Federal Reserve Board.

Q. If you go to page 4 --

A. Page 4 of?

Q. Of Plaintiffs' Trial Exhibit 974.

A. I have no page 4 in the one in the binder.

You're referring to the thick one (indicating)?

Q. The one I handed up.

MR. DINTZER: Counselor, it doesn't have an exhibit page 4, if that's what you're referring to. In fact, it it's not a complete document. It doesn't have -- oh, I'm sorry. I take it back. It's on the opposite page.

I apologize, Your Honor.

BY MR. BOIES:

Q. This is Plaintiffs' Trial Exhibit 974 as marked with what I handed you. It's page 8 of the exhibit. It's page 4 of the hearing. The page 4 number is at the top of the page. The page 8 is at the bottom of the page.

A. Yes, sir, I have it now.

Q. And this indicates that you did indeed testify at this hearing; correct?

A. Yes, sir.

Q. And let me ask you to now go to page 11 of the exhibit.
A. Yes, sir.
Q. And the third paragraph that begins, "House prices have risen by nearly 25 percent over the past two years," do you see that?
A. I see it.
Q. And then you continue, "Although speculative activity has increased in some areas, at a national level these price increases largely reflect strong economic fundamentals, including robust growth in jobs and income, low mortgage rates, steady rates of household formation, and factors that limit the expansion of housing supply in some areas."
Do you see that?
A. Yes, sir.
Q. Let me ask you to look next at Plaintiffs' Trial Exhibit 1041, which ought to be in your binder. That would be an excerpt or may be an excerpt as well, and if you want the complete document, we --
A. Yes, sir, I have it.
Q. -- are happy to provide it.
I would offer Plaintiffs' Trial Exhibit 1041.
MR. DINTZER: No objection, Your Honor.
THE COURT: Plaintiffs' Trial Exhibit 1041 is

admitted.

(Plaintiff's Exhibit Number 1041 was admitted into evidence.)

BY MR. BOIES:

Q. Would you explain what Plaintiffs' Trial Exhibit 1041 is.

A. It's a speech that I gave to the -- a conference at the Federal Reserve Bank of Chicago.

Q. And this was a speech that you gave in May of 2007; is that right?

A. Yes, sir.

Q. And if you'd turn to page 6 and in particular the second full paragraph, the one that begins, "How will developments in the subprime market affect the evolution of the housing market?"

Do you see that?

A. Yes, sir.

Q. And you say that "The rise in subprime mortgage lending likely boosted home sales somewhat, and curbs on this lending are expected to be a source of some restraint on home purchases and residential investment in coming quarters."

Do you see that?

A. Yes, sir.

Q. And you say, "Moreover, we are likely to see further increases in delinquencies and foreclosures this year and next as many adjustable-rate loans face interest rate resets."

Do you see that?

A. Yes.

Q. And then you say, "All that said, given the fundamental factors in place that should support the demand for housing, we believe the effect of the troubles in the subprime sector of (sic) the broader housing market will likely be limited, and we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system."

Do you see that?

A. Yes, sir.

Q. And that was a statement some considerable period of time after AIG had stopped accepting additional CDS risks; correct?

A. Yes.

Q. Let me ask you to look at Plaintiffs' Trial Exhibit 553, which I would offer.

MR. DINTZER: No objection, Your Honor.

THE COURT: Plaintiffs' Trial Exhibit 553 is admitted.

(Plaintiff's Exhibit Number 553 was admitted into evidence.)

BY MR. BOIES:
Q. This is a hearing before the Committee on Banking, Housing and Urban Affairs of the United States Senate on December 3, 2009; is that correct?
A. Yes, sir.
Q. And this was while you were chairman of the Federal Reserve Board of Governors; is that correct?
A. Yes, sir. This was the renomination hearing.
Q. And one of the things that you were asked questions about was the September 22 AIG revolving credit facility; is that correct?
A. I don't know, sir.
Q. Let me ask you to look at page 141 of the exhibit at the bottom of the page, and I'm referring to question 66 and answer 66.
The first sentence of that answer says, "The revolving credit facility is fully secured by all the unencumbered assets of AIG, including the shares of substantially all of AIG's subsidiaries."
Do you see that?
A. Yes, sir.
Q. And the revolving credit facility that is being referred to there is the September 22 13(3) revolving credit facility; correct?
A. With the amendment that it had been changed

through -- the limit of the facility had been changed through some of the restructurings that took place in 2009.

Q. That is, by the time of this hearing, the limit of the credit facility had been reduced; correct?

A. That's right.

Q. In that connection, there have been references to this a number of times as an $85 billion revolving credit agreement.

In fact, AIG never borrowed $85 billion pursuant to that credit agreement; is that right?

A. I'm not sure.

Q. Do you know what the maximum amount of money that AIG ever drew pursuant to the September 22 credit agreement was?

A. Well, it was only in effect for a relatively short time before the restructuring, but I don't know the answer now.

Q. Do you know approximately?

A. No, sir.

Q. Do you know that it was considerably less than $85 billion?

A. I don't know the number, sir.

Q. Let me turn next to Plaintiffs' Trial Exhibit 80, which is already in evidence and I would ask you to look at.

And this document is an e-mail transmitting a resolution or a draft resolution which comprises a second page of Plaintiffs' Trial Exhibit 80.

Do you see that?

A. Yes, sir.

Q. And Plaintiffs' Trial Exhibit 80 on the second page is a draft resolution that Mr. Alvarez on the first page says "is a draft resolution we plan to present to the Board after FOMC."

Do you see that?

A. Yes, sir.

Q. Now, this is not a resolution that you recall seeing; correct?

A. No, sir.

Q. And just so the record is clear, when you say "no, sir" to that question, you mean that the statement I made was correct.

A. I did not -- do not recall seeing this resolution.

Q. And also you do not recall any discussions, prior to the Board of Governors meeting, with respect to any resolution that would be presented; correct?

A. I'm sorry. I'm confused.

So prior to the Board of Governors meeting, obviously we didn't have any formal discussion before the meeting, so...

Q. No. My question I think was unclear.

Prior to the Board of Governors meeting, had you had any discussions with anyone concerning the resolution that would be presented at the meeting?

A. I had discussions about the general terms that would be proposed and therefore that would inform the construction of the resolution. I don't recall when I first saw the resolution which was approved by the board at the meeting.

Q. Was there any discussion that you were aware of prior to the Board of Governors meeting as to what the interest rate would be for any loan extended to AIG pursuant to section 13(3)?

A. I believe there was phone -- conference calls in the morning, and I can't tell you which of the several calls it was that President Geithner outlined what he saw as the basic -- what he was proposing as the basic parameters of the loan, and I -- I was supportive of that.

Q. Did that include a specific discussion of the interest rate, sir?

A. I don't recall.

Q. Was there any discussion that you recall, prior to the Board of Governors meeting, as to what interest rate would be provided for any loan extended to AIG pursuant to section 13(3)?

A. I don't recall.

Q. And the first time you saw any resolution or draft resolution with respect to the AIG loan was at the board meeting itself; correct?

A. I don't recall whether it was at the board meeting or shortly before.

Q. Do you recall that at your deposition your recollection was that the first time that you saw the resolution or draft resolution was at the board meeting itself?

A. I really don't have a strong recollection.

Q. Would it be fair to say that your recollection would have been better at the time of your deposition than now because it was closer to the events in question?

A. I'm -- I'm sorry. I don't recall exactly when I saw the resolution, but it may have been at the board meeting.

Q. When at the board meeting was the resolution presented?

A. I don't recall.

Q. Do you recall that there were two sessions of the

September 16 board meeting?

A. Yes, sir.

Q. Was the resolution presented at the first session or the second session?

A. I don't recall.

Q. Is it fair to say that you did not have any participation in the drafting of the resolution that was ultimately adopted by the Board of Governors at the September 16 meeting?

A. That's fair. It's usually a staff task.

Q. And is it fair to say that you did not give any direction to any of the staff as to the drafting of that resolution?

A. I don't recall the sequencing. Obviously the resolution reflected discussions that we had had with President Geithner, and so they must have been privy to those discussions and had been instructed in that respect.

Q. When you say they must have been privy to the discussions with President Geithner, do you know who drafted the resolution that was presented to the Board of Governors meeting on September 16?

A. No, sir.

Q. And is it fair to say that whoever it was that drafted that resolution, you did not have any discussions with them about the drafting of the resolution?

A. I don't recall.

Q. Let me turn to another subject.

In September of 2008 at the time of the AIG credit facility, you and Secretary Paulson and President Geithner were concerned with the political implications of any loan to AIG that you might make; correct?

A. Yes, sir.

Q. And this was a time when you were trying to get additional authority from Congress that you believed was important to preserving the stability and functioning of the financial markets; correct?

A. The proposal to Congress came after the AIG loan but during that same period, yes.

Q. The proposal that was made to Congress with respect to TARP was made initially on September 18; correct?

A. Sounds about right.

Q. And one of the political concerns that you and Secretary Paulson and President Geithner were concerned about was that if it appeared to the public or to Congress that AIG was being treated lightly, that could cause political problems; correct?

A. I don't want to speak for my colleagues, but it was certainly a concern for me.
Q. Let me turn to the subject of the private sector negotiations that AIG had in the time frame of September 13 and 14.
No one ever suggested to you that they believed that a private sector solution was a serious possibility for AIG on or after September 13; correct, sir?
A. 13th is Saturday.
Q. Yes.
A. No. I heard through the weekend that there were various negotiations going on with private equity firms, but I didn't have much information. I certainly had no idea how serious the negotiations were.
Q. And indeed, your view was that it seemed clear to you that they would not be able to obtain adequate credit accommodations the weekend of September 13-14; correct, sir?
A. I was not ruling out some kind of private solution.
Q. I understand that you were not ruling it out, but it seemed clear to you that AIG would not be able to obtain adequate credit accommodations, and that was a view that you had the weekend of September 13 and 14; correct?

A. I was concerned about it, but I'm not sure that I came to a definitive judgment.

Q. Without coming to a definitive judgment, was it your understanding or belief that AIG would not be able to obtain adequate credit accommodations from the private sector, and did you hold that belief the weekend of September 13 and 14?

A. No.

Q. When is it your testimony that you first came to that belief?

A. I think somewhere on the afternoon of Monday, which would have been the 15th, it was increasing -- it had become evident that all the potential private sector negotiations had broken down. That's my recollection.

Q. Prior to the time that you were told sometime on Monday that the private sector negotiations had broken down, did you believe that AIG was going to be successful in obtaining private sector credit that would be adequate for its needs?

A. I didn't know. I was hopeful that it would.

Q. Other than being hopeful, I'm simply asking for your best judgment at the time. You may not remember what that judgment was, but if you do remember what that judgment was, I want you to tell me.

A. My judgment was agnostic. I knew there was activity going on, and I thought there was still a possibility that that might occur.

Q. Did you have any belief other than that that was a possibility that that might occur?

MR. DINTZER: Objection, Your Honor. Asked and answered and answered.

THE COURT: Overruled. I'll allow a little bit more but not much.

THE WITNESS: I had no certain view in either direction, sir. I knew that negotiations were going on. I thought that they -- I didn't have much information. Based on what I knew, I thought there might be some possibility that they would be successful, but I was certainly not certain in either direction.

MR. BOIES: I understand the Court's desire, and I will move on.

BY MR. BOIES:

Q. Let me ask you to look at Defendant's Exhibit 286.

A. Defendant's 287.

Q. Defendant's 286, which is in our binder, but we have put the defendant's exhibits at the end, so it's near the end of the binder.

This is already in evidence.

And the bottom e-mail is an e-mail dated September 13, 2008 at 11:14 a.m., from you to

Vice Chairman Kohn, Governor Warsh and President Geithner.

Do you see that?

A. Yes, sir.

Q. And you say, as I think has already been covered, "I would be willing to consider lending to AIG against good collateral if we have explicit and public commitments regarding the actions they will take to wean themselves and restore stability."

Do you see that?

A. Yes, sir.

MR. DINTZER: And Your Honor, I may be mistaken. If I am counsel, can tell me. I think we discussed this document yesterday and maybe even this portion?

THE COURT: Mr. Boies, I'm not positive one way or the other because we had some interruptions yesterday afternoon.

MR. BOIES: I'm not either, but I -- but I know the question, and I believe the question I'm about to ask I did not ask yesterday.

THE COURT: All right. Very well. Go ahead.

BY MR. BOIES:

Q. Focusing on the language that I just read and the point that I just read, did Mr. Geithner, who received a copy of Defendant's Exhibit 286, ever tell you that he had disagreed with what you wrote in terms of being willing to lend to AIG against good collateral so long as they took steps going forward?

A. I don't recall that. No.

Q. Let me turn to the subject of the trust, and this was something that I believe you indicated that you were not involved in the drafting of; correct?

A. Correct.

Q. Do you know why it was created?

A. I know now, sir. I was -- and I probably knew when Scott Alvarez told me in September, but I had forgotten that conversation.

Q. That is, at the time your deposition was taken, you had forgotten.

A. I had forgotten and I -- you pushed me to conjecture, which I did.

Q. And the conjecture that I may or may not have pushed you to is conjecture that you now believe not to be accurate; correct?

A. Well, there might have been considerations, sir, but it left out the main -- what I understand now to be the main argument.

Q. And what you understand now to be the main argument for the trust is something that you have learned from whom or from what?

A. From reading testimonies of the -- particularly the House Financial Services testimony on AIG that took place in March of 2009.

Q. And whose testimony?

A. Both mine and President Dudley or at the time -- yes, President Dudley.

MR. BOIES: May I have just a moment, Your Honor?

(Pause in the proceedings.)

BY MR. BOIES:

Q. As you understood it at the time, did the creation of the trust, based on your refreshed recollection, have anything to do with legal concerns as to whether the Treasury or the Federal Reserve could hold AIG stock?

A. No, sir.

Q. Did you ever receive any legal advice or opinion as to whether the Federal Reserve could hold AIG stock?

A. No, sir.

Q. Did you ever ask for any such opinion?

A. No, sir.

Q. Did you ever receive any legal advice or opinion as to whether the Federal Reserve could acquire AIG stock?

A. No, sir.

Q. Did you ever ask for such advice or opinion?

A. No, sir.

THE COURT: Mr. Boies, would this be an opportunity for a morning break?

MR. BOIES: Yes, it would, Your Honor.

THE COURT: Let's reconvene at 11:15.

(Court in recess.)

MR. BOIES: Your Honor, in an effort to expedite matters, we are consulting right now about the possibility of admitting certain documents without the necessity of using them with the witness.

THE COURT: Okay.

MR. BOIES: In which case we can much accelerate the examination.

THE COURT: Okay.

MR. BOIES: It may take us another two or three minutes to complete that process, if the Court would permit us.

MR. DINTZER: What I would suggest, Your Honor, to keep things moving, is that we move to cross, with the understanding that any specific documents that we will not ultimately stipulate to the entry of, plaintiffs can lay the foundation and try to move it in but won't ask questions about it, and so we can keep things moving forward.

MR. BOIES: That's I think a great idea,

Your Honor.

THE COURT: All right. That seems reasonable.

MR. BOIES: And on that basis, we will for the present time pass the witness.

THE COURT: Very well. Thank you.

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CROSS-EXAMINATION

BY MR. DINTZER:

Q. Good morning, Chairman Bernanke.

A. Good morning.

Q. I'd like to back up and I'd like to ask you where you grew up.

A. Dillon, South Carolina.

Q. And where did you get your college degree?

A. Harvard University.

Q. And when was that, sir?

A. 1975.

Q. And what did you do after college, sir?

A. I went to graduate school in economics at MIT.

Q. And when did you finish up at MIT?

A. In 1979.

Q. And with what degree, sir?

A. Ph.D.

Q. What job did you take after obtaining your doctorate in economics?

A. I became an assistant professor at the Stanford Graduate School of Business.

Q. And how long were you there?

A. Six years.

Q. And what did you do after that, sir?

A. I received a full professor tenured position at Princeton University, and I was at Princeton from 1985 until 2002.

Q. And after 2002, I assume you were still a professor there. What happened after that?

A. In 2002, I was nominated by President Bush to join the Board of Governors of the Federal Reserve System, I was confirmed, and I joined the board in August of 2002.

Q. And how long were you on the Board of Governors as a governor?

A. About two and a half years.

Q. And what happened after that, sir?

A. I was nominated by the president to be the chairman of the Council of Economic Advisers in the White House and served there for less than a year.

Q. Could you just give the Court a brief explanation as to what the Council of Economic Advisers is.

A. Yes, sir. It's a -- it's a council within the White House which consists of a chairman and two members plus a couple of dozen professional economists that provides economic advice to the White House, to the administration, on policy matters.

Q. And after you were done being on the Council of Economic Advisers, when was that?

A. Well, the president nominated me to become the chairman of the Federal Reserve Board in October of 2005, and I was confirmed in January of 2006.

Q. And how long is the term of a president -- of the -- of the chairman of the Board of Governors?

A. Four years.

Q. And were you renominated?

A. Yes, sir. By President Obama.

Q. And were you confirmed by the Senate at that time?

A. Yes, sir.

Q. And when did you complete your service as chairman of the Board of Governors?

A. January 31st of this year.

Q. And what have you been doing since, sir?

A. I've been at the Brookings Institution as a distinguished fellow, working on a book, giving talks.

Q. Just generally, sir -- oh, you know, let me take this opportunity. The -- the book of your speeches --

A. Yes, sir.

Q. -- the one that you've been looking at, can you just describe how -- what role you had in the reviewing or publishing of that, of that book.

A. I had no role in the publication. The -- I gave these lectures at George Washington University with staff assistance to prepare the lectures, and they included slides, and I talked about the slides and talked about these issues.

A videotape of the lectures was put in the public domain, and Princeton University Press took the videotapes and transcribed them, edited them presumably, and sold the book. I had no input into the editing or the revision of the book.

Q. And what kind of an audience were you speaking to in that, in that situation?

A. I was speaking to business school students.

Q. Now, turning to the -- your responsibilities as a Board of Governors member, what generally are the Board of Governors -- what do they do?

A. The Board of Governors has several main functions.

First, every member of the Board of Governors is also a member of the Federal Open Market Committee and has a permanent vote on monetary policy decisions.

Secondly, the Federal Reserve has a number of regulatory responsibilities, and the

Board of Governors -- in bank supervision, in consumer protection, and in other areas, and the Board of Governors is responsible for making those regulations and overseeing the supervision of banks and other financial institutions by the Reserve Banks scattered around the country.

Q. And what are the specific jobs of the chairman of the Board of Governors?

A. The chairman presides over board meetings and also is ex officio the chairman of the Federal Open Market Committee, the monetary policymaking arm. He or she has a leadership role in trying to bring the board or the FOMC together in policy decisions.

Q. Now, we've heard a lot about financial crises.

If you could describe just generally, what is the Board of Governors' role in a financial crisis?

A. Well, the Federal Reserve was created in 1913 in reaction to a series of financial panics that hit the United States in the 19th century and early 20th century. In those panics, it was typical for depositors to run on a bank and withdraw their deposits, often causing the bank to fail even if the bank was in some fundamental sense solvent.

Those bank panics also became broader, they were contagious, in the sense that once one bank came under a run, it would often spread to other banks, with deleterious effects on the financial system and on the broader economy.

The Federal Reserve was created in part to address that problem by serving as a lender of last resort, that is, by lending short-term to banks against good collateral to allow them to meet their obligations and to replace the funding that was lost when depositors withdrew their cash. That's a strategy for containing panics, so that was an important part of what the Federal Reserve was created to do.

Q. And with respect to the structure of the Federal Reserve, does the Board of Governors itself actually make the loans?

A. No. The structure is that the -- one of the twelve Reserve Banks makes the loan depending on where the location of the borrower is.

Q. So what's the Board of Governors' responsibility?

A. The Board of Governors has to approve the loan.

Q. And I think you used the term "lender of last resort."

What does that term mean?

A. "Lender of last resort" is a term that's been around for a long time, almost as long as central banking has been around.

Again, if you would imagine a banking panic in which depositors are running on banks, even healthy banks, pulling out their deposits. Banks are being forced to sell assets into a depressed market, driving down the prices of those assets. The falling asset prices and the panic are spreading through other banks.

The lender of last resort stands ready to make short-term loans against good collateral to place securities in order to replace the funding that is running away and to make it unnecessary for banks to engage in asset sales, fire sales of their assets. And this approach was shown by the Bank of England in particular to be a very effective way over time to calm a panic and to prevent more serious damage to the banking system.

Q. And we've talked about 13(3).
What generally is the goal of 13(3) or the use of 13(3)?

A. Well, 13(3) was not part of the original Federal Reserve Act. It was added in the 1930s. It gave the Federal Reserve the power under unusual and exigent circumstances and some other conditions to make loans to any individual, partnership or corporation.

The original purpose I think had to do in part with the fact that there were so many problems with credit in the 1930s. But 13(3) was not used between the 1930s and the 2007-2009 crisis.

In the 2007-9 -- 2007-2009 crisis, the Federal Reserve -- Federal Reserve used 13(3) to expand its lender of last resort activities to include financial institutions which had not been part of the financial system or only a minor part when the Federal Reserve had been created.

For example, primary dealers, securities dealers and the like, who rely heavily on short-term financing, are potentially subject to runs.

Our existing authority only allowed us to lend to banks. By invoking 13(3) we were able also to lend to some other types of institutions that were also subject to bank-like runs.

Q. And you said that it first started being used 2007-2008 time frame. We've used the term, but -- in this court, but I just want to get -- do you understand if I use the term "broad-based facility" what I mean?

A. Yes, sir.

We set up a number of broad-based facilities. The Primary Dealer Credit Facility would be an example.

A broad-based facility is established. An entire class of firms, so long as the firms are solvent, are entitled to come to this facility and to borrow against -- against good collateral.

The purpose of broad-based facilities is to provide liquidity to both firms and the markets and essentially is a way of conducting the lender of last resort activity with firms other than just banks narrowly defined.

Q. Now, you've mentioned broad-based facilities.
Is there other kind of lending under the 13(3)?

A. Well, on about five occasions the Federal Reserve used the 13(3) authority in either as part of or in leading an effort to prevent the collapse of a systemically important financial firm on the concern that the collapse of such a firm would have serious implications for the stability of the financial system and for the economy.

We made strong distinction and often in my speeches and testimonies I often made the distinction between the broad-based facilities which were open to every firm of a certain category under fixed, predetermined terms versus the one-off interventions that we undertook to preserve the -- prevent the failure of systemic institutions.

The problem that existed was that there was no way of resolving systemic institutions in a safe way during the financial crisis, and so the Fed had to use its powers in an ad hoc way to try to achieve that goal. Whenever I talked about these ad hoc interventions, I always ended my description by calling on Congress to provide a more -- a more structured approach to achieving these resolutions, and fortunately that was done in Dodd-Frank.

Q. And when was that passed, sir?

A. 2010.

Q. In 2008, what were the requirements just generally for a 13(3) loan to be made?

I believe you discussed some of them with counsel, but I just want to make sure we --

A. The board has to certify that the circumstances are unusual and exigent, that the borrower cannot get adequate credit accommodations elsewhere, that it has to be -- the loan has to be secured to the satisfaction of the Reserve Bank which is making the loan.

Those are the -- that's the law. In practice, in addition, we made 13(3) loans with the purpose of achieving broader financial stability.

Q. And was there a voting requirement as part of the loan?

A. Yes. All five governors that were sitting had to approve the loan.

Q. And at the time, there were only five governors sitting; is that what you're referring to?

A. Yes.

Q. If an individual firm met the requirements of 13(3), the ones you just identified, did that require the Board of Governors or the participating district Reserve Bank to make a loan?

A. Absolutely not.

Q. Why?

A. It was purely to the discretion of the Federal Reserve whether to use the 13(3) authority based on policy considerations. And the fact that 13(3) had not been used since the 1930s suggested there was a quite a high bar for using that authority.

Q. Did the Fed -- did the -- the Board of Governors and the Reserve Banks, do you know if they turned down requests for 13(3) loans during the financial crisis?

A. Yes. Quite a few.

An example would be the auto companies for --

Q. If you could explain that, sir.

A. We got inquiries from some of the large auto manufacturers about whether we would consider providing loans to them -- this would be in fall of 2008 -- and we declined to do so.

Q. Did they eventually get some assistance?

A. Well, they did get assistance from the TARP, and -- but obviously that was not a Federal Reserve decision.

Q. And why did -- why didn't the Board of Governors pursue a potential assistance to the automobile manufacturers?

A. Well, first, our focus was on the financial system. The Federal Reserve is appropriately focused on maintaining financial stability. It seemed to us that making loans to a manufacturing company would be more in the province of Congress, and Congress had time to consider that.

And finally, of course, the Federal Reserve has no expertise or information that would allow it to manage loans made to a manufacturing company, and so it would be very difficult for us to be confident that the loans were secured to our satisfaction.

Q. What was your working relationship with President Geithner and Secretary Paulson in responding to the financial crisis?

A. We worked very closely together, coordinated. I think we made an effective team.

Q. Now, what would be the purpose of making a 13(3) loan to an individual firm and not to a broad-based facility?

A. Well, the only cases in which we made 13(3) loans to individual firms was, again, to prevent the imminent failure of a systemic -- of a systemically important firm. And the concern was that because there was already a panic going on in the economy, that is, it was taking place not in bank deposits but taking place in short-term funding markets where lenders in the repo markets, the commercial paper market, were withdrawing their funding, so there was a panic going on, and our concern was that the collapse of a large, systemically important firm would do significant damage to the system and enhance the severity of the panic, and so it was in the interest of preserving the overall stability of the financial system, not the interest of the individual firm, that we make those loans.

Q. How about the interests of the investors and shareholders in that firm? Were they a consideration in whether to try to save an individual company?

A. The consideration was that we wanted to minimize the windfall. Any company that received a 13(3) loan had one more option than most companies. Most companies which can't make their payments default and bankrupt, become bankrupt, and the shareholders lose all their -- lose all their value.

A company that got a 13(3) loan as a bailout and was widely perceived by the public as getting a special favor from the government would get additional value to shareholders and creditors that would not have been available without the government intervention.

It was our objective to minimize that windfall if at all possible on the grounds that we didn't want to encourage large, systemically important firms to take excessive risks or to take insufficient -- make insufficient efforts to find private sector solutions if they were having problems.

Q. Can you compare that to the treatment of those entities that used the broad-based facilities, say, the PDCF?

A. Well, the broad-based facilities again were set with a -- for a specific class of firms with predetermined -- predetermined terms. And in general, the -- the rates that we charged in the -- in the broad-based facilities were not as high as they were in the one-off interventions for a couple of reasons.

One is that these were firms that were obviously at the moment at least were operating in a solvent way.

But secondly and very importantly, we very much wanted the firms to come and borrow because they were able to then take that cash and redistribute it into the financial system and help reduce the overall instability, so we actually actively sought to get primary dealers and banks to come borrow from us in order to get them to again redistribute liquidity into the system.

Now, the problem is that if you charge a high interest rate on these facilities, there's a longstanding problem in central banking called stigma. The problem is that if you charge a high interest rate, only the weakest banks will come, and the coming to the window and borrowing would identify you as being weak, which would in fact cause perhaps a run or a panic on your own institution and people -- so people won't come.

So in order to overcome the stigma problem, we kept the rates lower. We kept them higher than during normal times but lower than available during the crisis in order to make sure that there was sufficient lending to -- again, to provide liquidity to the system and control the panic.

In contrast, in the one-off inventions, we very, very much did not want to make those loans. They were last resort efforts taken only because there was no existing structure for resolving systemically important firms.

THE COURT: Mr. Dintzer, may I ask a question?

MR. DINTZER: Of course, Your Honor.

THE COURT: Chairman Bernanke, what were the five one-off loans that you made under section 13(3)?

THE WITNESS: They were -- it was the Bear Stearns, where we facilitated the acquisition of Bear Stearns by JPMorgan Chase.

We -- we opened up a credit line to the GSEs, Fannie Mae and Freddie Mac, which was never used, but it was a backstop during the period in which Treasury was getting congressional authorization to take over those firms.

That's two.

The third was AIG.

And the last two I recall were Citigroup where, as Mr. Boies described, the Federal Reserve participated with the Treasury and the FDIC in so-called ring fencing a group of $306 billion in assets. And again, the Fed made a 13(3) loan, authorized a 13(3) loan, but no loan was ever actually made.

Likewise Bank of America, there was a ring fence of assets with the Treasury and the FDIC and the Fed coordinating. That agreement was never actually even ratified, and so no loan was made there.

So actual loans were made in only two instances, once to Bear Stearns and the other to AIG.

THE COURT: Thank you.

BY MR. DINTZER:

Q. Sir, plaintiffs' counsel asked you about Bagehot,

Walter Bagehot.
If you could just take a moment, who is Walter Bagehot or was?
A. Walter Bagehot was a 19th century English journalist and economist.
Q. And what -- just generally, what relevance does he have to banking?
A. Well, along with other people in the 19th century, his work called Lombard Street, published in 1873, was a -- still is viewed today as the classic description of lender of last resort policies by central banks that are trying to control the panic.
Q. And what is the Federal Reserve Act?
A. The Federal Reserve Act is the act that founded and established the Federal Reserve in 1913.
Q. Does the Federal Reserve Act relate to Bagehot in any way?
A. Well, the Federal Reserve's founding followed a number of years of intensive studies of practices in other central banks around the world, and Bagehot had influence on how central banks operated. And it was no doubt based on those -- how other central banks operated that the Federal Reserve got the lending authority that it had at the beginning, which was to lend to banks through the so-called discount window.

So Bagehot's influence and the lender of last resort idea was embodied in the Federal Reserve's powers when it was created, although it should be clear that neither the term "Bagehot" and I don't think the term "lender of last resort" actually appear anywhere in the legislation.

Q. What is Bagehot's dictum?

A. Bagehot's dictum is that during financial panic, the central bank should lend freely against good collateral to solvent firms at a penalty rate.

Q. And how does Bagehot's dictum generally relate to lender of last resort function?

A. Well, the idea is, again, if you have a bank panic and depositors are withdrawing funds, instead of banks having to dump their assets on the market at low prices, if the central bank is willing to lend to banks taking those loans or securities as collateral, that gives the banks the cash they need to satisfy depositors, to calm the panic and to avoid the fire sale of assets that could become the beginning of a contagious crisis.

Q. Turning back to Bagehot's dictum, you indicated that there is a penalty rate.

What does that mean?

A. Well, the penalty rate means a higher rate than normal rates, a higher rate than would normally be seen in normal times.

He had several motivations. One was simply to protect the gold stock that the Bank of England had, which is not a consideration for modern central banks. The other was to try to induce people with -- only try to restrict it to only people who could make good use of the money.

Q. Generally speaking, how was the rate determined for broad-based facilities in 2008? Did that have any relation to Bagehot's dictum?

A. Well, generally it was consistent with Bagehot's dictum. We tried to set rates that were above normal rates but below panic rates, which is consistent with Bagehot's dictum. And that, in turn, was shown by the fact that when conditions normalized, even though the facilities were still available, firms voluntarily withdrew and stopped borrowing from them because they could do better on the private market.

Q. Did Bagehot's dictum apply to single-borrower loans like under 13(3)?

A. Well, there's a partial overlap in that there's lending against collateral that takes place in the single-borrower loans. But I'd like to -- if I might, I'd like to talk for a second about how Bagehot's dictum applies specifically to AIG.

In chapter 7 of Bagehot's Lombard Street where he describes Bagehot's dictum as we've just described, he then goes on to talk about what's a definition of good collateral. And he says good collateral is good banking securities which can be pledged or converted in normal times.

In other words, he was very clear that legitimate lender of last resort lending must be made against financial and marketable securities that are independent of the value of the firm itself.

The Federal Reserve made thousands of loans during the financial crisis, and only one of those loans was not made against financial and marketable securities, and that was the loan to AIG.

So I would say that of all the loans in the crisis, the only one that would clearly fall afoul of Bagehot's dictum would be the loan to AIG.

Q. How about the concept of making a loan to a single distressed borrower to -- because of systemic concerns? Does that fit into Bagehot's dictum?

A. Again, it is some overlap, but the way we thought about it and the way I described it frequently was that this was a substitute for a more structured bankruptcy or resolution procedure that would allow the government to unwind a failing firm without as much damage to the financial system. And now we have that in Dodd-Frank, so whenever I talked about loans to failing -- single failing firms, I always drew a strong distinction between that and the broad-based programs, and I always followed my discussion of loans to single firms with a call for Congress to provide us with a better approach that would make these kinds of loans unnecessary.

Q. Is there any legal obligations for the Board of Governors or the New York Fed to follow Bagehot's dictum in every case?

A. Absolutely not.

Q. Does Bagehot's dictum inform the exercise of discretion by the Board of Governors?

A. It informed my view of the policy choices that we made, but again, different board members might have different views. And there's no -- it's not represented in any way in the legal requirements.

Q. What were the causes and triggers of the financial crisis?

A. The --

Q. Briefly, because I know this is a broad question that may be debated.

A. Well, the triggers of the crisis -- first of all, it's a very, very complex phenomenon and it -- it's going to take volumes in the future obviously to explain all the interactions and causes of the crisis.

Broadly speaking, the crisis was triggered by the bursting of the housing bubble and the related rise in defaults and delinquencies among lower-quality mortgages.

Because those lower-quality mortgages were embedded in many credit products that were sold to investors, the concern about the quality of investments went well beyond subprime lending and went to all of these credit products that had little bits of subprime somewhere in them.

The analogy that people use is, if you hear that in Idaho there are three cases of mad cow disease, then everywhere in the country people stop buying beef. And likewise, people were -- investors were concerned that there would be a little bit of subprime in their -- in their structured credit products, and so they'd be --

(Admonition from the court reporter.)

So I'm sorry. I'm just trying to be efficient.

The -- again, so the subprime loans were going bad, but those subprime loans themselves were a small part of the market.

The problem was that they were mixed in with other credit products into structured credit securities, and the existence of the subprime and other weak mortgage loans made these securities unattractive to investors.

Now, how does this relate to a financial panic?

We no longer have depositors running on banks as we did in the 19th century because we have deposit insurance. But there are other kinds of short-term funding which is not insured and which is prone to run or at least could run, and the two leading examples are what's called repos and commercial paper. And let me focus on repos.

Repos are short-term loans where a commercial bank or investment bank borrows for a short term against some financial security as collateral. And it was always the thought among policymakers and among businesses that the repo market would be immune to runs because every loan was collateralized.

However, as concerns increased about the quality of a wide variety of structured credit products that included perhaps some subprime mortgages, lenders became less and less willing to accept those products as collateral, and essentially the amount of repo lending that was available shrunk very considerably.

So it was very much like an old-fashioned bank run, except it was happening in the electronic markets, the repo market and the commercial paper market, and so short-term funding was running away from firms that rely on that funding.

The Federal Reserve, in an analogy to the way the central banks operated in the 19th century, serves as a lender of last resort to try to calm the panic by setting up broad-based programs that would provide funding to those firms that were losing funding to panicky runs.

Q. Approximately when did the financial crisis begin, as best you can estimate?

A. The first clear indication of panic was in August of 2007.

Q. Was the origin of the financial crisis linked to regulation?

A. Yes. There were large gaps in the regulatory oversight. AIG, for example, was not adequately overseen.

There were also obviously mistakes made by regulators in terms of enforcing sufficiently tough standards of risk management on some firms, and so yes, there were regulatory failures and regulatory problems in terms of the structure of the financial regulatory system.

Q. How about the private sector? Did the private sector have some responsibility for the financial crisis?

A. Absolutely. The private sector is the sector that made the bad loans, not only in the subprime lending but in other categories of loans. The private sector took insufficient care with respect to its risk management and found itself in many cases unable to deal with distressed market conditions that occurred.

So yes, in general, there were a number of ways in which private sector companies contributed to the crisis.

Q. Is it possible to allocate the responsibility amongst the two?

A. I don't think so. It's a very complex event that involved many different elements.

I haven't mentioned, for example, the credit rating agencies, which are also private sector institutions, which bear some blame for rating these structured credit products AAA even though they turned out to be bad.

So if you were to try to assign blame, you would be looking at a wide variety of institutions, both public and private.

Q. Turning to Bear Stearns, what assistance did the New York Fed provide and the Federal Reserve provide to address the Bear Stearns situation?

A. Well, our view was that an investment bank like Bear Stearns that was near failure could only be saved by having it acquired by a larger, stronger firm. But it took a few days to do that, so on -- on the Thursday of Bear Stearns weekend, we wanted to get the firm to the weekend in order to try to work out an acquisition, another firm to take over Bear Stearns, so we made a one-day loan that was a 13(3) authority loan against collateral that allowed Bear Stearns to meet its obligations for one day, and that got the company to the weekend.

And over the weekend, with the good offices of the Federal Reserve, we negotiated -- or really the -- JPMorgan Chase and Bear Stearns negotiated an acquisition of Bear Stearns by JPMorgan, which -- so that put the company into safe hands.

In order to make the acquisition possible, JPMorgan was very concerned about the amount of risky assets it would have to take on its balance sheet, and so the Federal Reserve agreed to create a special-purpose vehicle that would hold about $29 billion in Bear Stearns' assets against which the Fed would make a 13(3) loan to support it and would also -- there would be -- ultimately it turned out to be a first loss provision from JPMorgan Chase. They would take the first

loss if the value of the securities went down.
Ultimately, the values of all those securities went up and the Fed made a profit on that loan.
Q. Now, did the Board of Governors vote for a 13(3) loan as part of this?
A. Yes.
Q. And did it have to satisfy all the requirements that we've discussed?
A. Yes.
Q. And do you recall what the -- and I think you discussed this with plaintiffs' counsel.
Do you recall what the interest rate was for the loan?
A. The loan to the SPV?
Q. Yes.
A. It was the primary credit rate.
Q. And why wasn't the interest rate higher to the -- and "SPV" is special-purpose vehicle; is that right?
A. That's correct.
Q. That's the entity that held the assets; is that right?
A. That's right.
Q. Why wasn't the loan higher?
A. Because the Federal Reserve had that SPV on its own balance sheet, and so the interest rate that it paid

was essentially irrelevant. It was just the rate at which we were paying ourselves off. It did -- had very -- it had not zero but very little impact on the economics of the acquisition by JPMorgan.

Analogous to that, I don't recall precisely, but I believe we also charged a relatively low rate when we took assets off of AIG's balance sheet and created the Maiden Lane II and Maiden Lane III vehicles.

Q. How did the share price that JPMorgan paid for Bear get set, to the best of your knowledge?

A. Well, to the best of my knowledge, the original offer that JPMorgan Chase made was for $2 a share and -- which was -- I don't recall what the peak of the Bear Stearns share price was, but this was a very low number compared to that peak. And that was a good outcome as far as Geithner and Paulson and I were concerned because, again, we wanted, to the extent possible, to minimize the windfall to the Bear Stearns shareholders in this intervention.

As it happened, JPMorgan Chase became concerned that the Bear Stearns stockholders would not accept the acquisition offer, and they raised their offer to $10 a share, which the shareholders did accept. We were unhappy with that because, again, it gave more of a windfall to the Bear Stearns stockholders, but it still reflected a fairly low price, and in exchange, JPMorgan agreed to increase its exposure to the assets in the special-purpose vehicle.

So the share price paid to Bear Stearns at $10 a share was higher than we would have liked from the point of view of minimizing the windfall to the stockholders, but it was ultimately a private transaction, and we didn't want to cause the acquisition to fall through and put us back to where we were with a failing investment bank, so we acceded to that increase.

And that just illustrates how frequently the concern about minimizing windfall would have to interact with other concerns that we were taking into account.

Q. And you talk about minimizing windfall.

Does that -- that has to bring us to the question of moral hazard, and if you could just offer a brief explanation or definition to the Court.

A. Yes, sir.

Moral hazard originated in the insurance industry, and it's the idea that if you have insurance protection for some property that you have less incentive to protect it or take care of it or avoid risks.

By analogy, if companies in the private sector believe that whenever they fail, the government will come in and bail them out, then that obviously reduces their incentives to manage their risks and to look for private sector solutions when they get in trouble.

And so minimizing the windfall is very closely related to the idea of not making it too attractive to be bailed out, because if you make it too attractive, you're going to incentivize that firm and other firms to take excessive risks and to take insufficient care and to rely on government bailouts in the future.

Q. Did the assistance that resulted in the Bear acquisition -- did that create moral hazard?

A. I'm sure it did. Yes.

Q. Would the Fed taking equity from JPMorgan as part of a transaction -- would that have addressed the moral hazard concerns?

A. No. Because JPMorgan was not -- was the healthy company. JPMorgan was the company that was acquiring Bear Stearns.

So we weren't in the business of trying to punish the shareholders of JPMorgan. It was the Bear Stearns shareholders that were the ones who -- where the moral hazard issue applied.

Q. And with respect to just to clarify that, when you say "punish," are you talking about reducing the windfall?

A. Yes. There's no -- there's no moral judgment being made here. It's just a question of letting market discipline work. And under normal market rules, a company that goes bankrupt goes bankrupt and the shareholders lose in almost all cases all their value, so by minimizing the windfall, you are reducing the moral hazard, the expectation -- you're trying to make it unattractive for firms to look for a bailout.

Q. Turning to AIG -- and I think you touched on this with plaintiffs' counsel regarding when you first heard that or learned that AIG was in financial distress. I'm going to ask you to turn to DX 962, which is in your binder.

A. I have it.

Q. And do you recognize this document, sir?

A. Yes. It's a series of e-mails.

Q. And I'm going to take your -- and you're the recipient of the top e-mail; is that correct?

A. Yes.

Q. Okay. I'm going to take you to the middle of the page, where it -- and this is part of a -- Patricia Mosser's e-mail. It says "AIG Meeting Notes."

Do you see that?

A. Yes, sir.

Q. And it says, "AIG" -- and there's some -- some character -- "Jacob Frenkel" and then "Vice Chairman" and it lists some other people.

Do you see that?

A. Yes.

Q. Do you know who Jacob Frenkel was?

A. Yes. I knew him because he was previously an academic at the University of Chicago, and he also serves as the governor of the Bank of Israel, and at this time he was vice chairman of the AIG board.

Q. And the next paragraph says, "AIG is facing serious liquidity issues that threaten its survival viability."

Do you see that?

A. Yes, sir.

Q. And could this have been around the time that you first learned of the AIG and its dilemma?

A. Well, Mr. Boies showed the e-mail. I don't -- again, I forget if it was Friday night or Saturday morning, but I was informed that AIG representatives had come to talk to the board staff about their liquidity problems at some time on Friday.

Q. And if I could turn -- ask you to turn your page -- your attention to the next page.

In the middle -- and I'm not going to direct you to the bottom line, but I'm directing you to the place

that says "Bottom line."
A. Yes.
Q. "Treasurer estimates that parent and AIG FS sub have five to ten days before they are out of liquidity."
Do you see that?
A. Yes, sir.
Q. Did you have an understanding whichever, whether it was on Friday or Saturday, that AIG was estimating five to ten days?
A. I don't recall the five to ten days. They were -- they were pretty vague. They -- they -- the amount of cash that they thought they needed and how long it would last, I heard different numbers at different times.
Q. And two paragraphs further down, it says, "Unwinding in event of bankruptcy is likely to be very messy."
Do you see that?
A. Yes, sir.
Q. Was that consistent with your understanding that it would be messy if AIG entered bankruptcy?
A. Well, I learned more about AIG over the next few days, but yes, by the time we made the loan, I was quite convinced that its failure would be highly disruptive to the financial system.

Q. If you could turn now, sir, to DX 270.
And do you recognize this, sir, as an e-mail that you're cc'd on with the title Edward Quince?
A. Yes, I do.
MR. DINTZER: Okay. And Your Honor, we would move for admission of DX 270.
MR. BOIES: No objection, Your Honor.
THE COURT: Defendant's Exhibit 270 is admitted.
(Defendant's Exhibit Number 270 was admitted into evidence.)
BY MR. DINTZER:
Q. And so this is Saturday, September 13, at 10:00 a.m.
Do you see that?
A. Yes, sir.
Q. And the subject is AIG?
A. Yes.
Q. And it starts off, "Staff has been in contact with AIG (Jacob) this morning."
And that's a -- that's the gentleman who you referred to earlier?
A. Jacob Frenkel, yes.
Q. And it says, "AIG sees this as a liquidity event and has investment bankers looking at assets this weekend but will not sell off core assets and is not seeking a

major equity injection or strategic partner."
Do you see that?
A. Yes.
Q. And did this inform your understanding of what was going on at the time?
A. Well, it -- they were looking for some way to meet their cash needs, but they didn't seem terribly motivated. But they were looking around for assets that they could sell that would get them the cash they needed to meet the payments.
Q. It goes on, in that same paragraph, "They were vague as to what they expected from us except that it sounded like an open-ended liquidity facility. 'A bridge to nowhere' at this point."
Did you have an understanding or do you now of what Don Kohn was referring to when he said "a bridge to nowhere"?
A. Well, if we were going to make a one-off loan to a company, we would want to be sure that there was -- first of all, that the company would be viable with that loan and that there would be a -- would be a plan for repaying the loan and exiting as a sound company.
So those would be minimum considerations for us to be willing to make a loan.
Q. A little farther down, he writes, "My inclination

is for me to tell Jacob that he can't count on us, they need to fix this themselves, to get them more focused on their own actions to address the problems."

Do you see that?

A. I do.

Q. Was that -- would that have been consistent or inconsistent with your point of view on September -- on Saturday, September 13?

A. It would be entirely consistent. We very, very much did not want to make a loan like of this sort. We strongly preferred that AIG find a private sector solution, and so -- and moreover, we had at that point very little information about whether a loan would be possible or whether it would be effective.

Accordingly, it was I think good -- it was a good approach to tell AIG that, you know, don't necessarily -- and this wasn't -- I don't think this was absolutely ruling out any possible loan in the future, but not counting on us, to see what private sector options there are.

Q. Do you have an understanding, sir, of what might have happened if -- if -- or what Mr. Kohn and perhaps yourself -- or Vice Chairman Kohn and perhaps yourself were concerned with if you told AIG that there was some possibility or likelihood, or however you might phrase it, of a loan, what kind of effect that would have on AIG?

A. Well, it would have -- well, it would have depended on the circumstances, but it presumably would have caused them to stop in their private sector negotiations and come take the Fed loan, which, again, we really didn't want to make if possible, and it would incentivize other firms to look first to the Fed to find a solution before taking a private sector solution even if that private sector solution were more painful.

Q. No further questions on that document, sir.

Now, do you have an understanding as to why Vice Chairman Kohn was working on this or why he was getting involved?

A. Yes. Vice Chairman Kohn, who was at the Fed for more than 30 years, a very experienced person, generally tried to keep his eye on important developments among major financial firms, and he was a useful -- he had a useful set of connections where he talked to people on Wall Street and the like.

Q. Did you have a position at this time on Saturday, September 13, one way or the other as to whether the door should be closed completely on the possibility of lending to AIG?

A. Oh, no. I -- I -- I was very concerned about the financial system and certainly under appropriate circumstances was willing to consider a loan, but on the other hand, certainly it was far too early to be making a concrete proposal.

Q. And if you could turn to DX 273. And I believe you looked at this with plaintiffs' counsel.

A. Yes.

Q. At least this portion.

And this is an e-mail from you -- this is in evidence, Your Honor.

This is an e-mail from you to Vice Chairman Kohn.

And can you remind the Court who Kevin Warsh is?

A. Kevin Warsh was a board member who also had good market connections and helped us understand what was going on in the markets.

Q. And just to set things, ultimately if a 13(3) loan -- strike that.

Ultimately, if a loan was to be made to AIG, the only avenue was 13(3); is that right?

A. That's correct.

Q. And that needed five votes; is that right?

A. Right.

Q. So what would each of these board members' role ultimately have to be?

A. Well, every one would have to be individually convinced that this loan was -- that the benefits of the loan exceeded the costs and they were willing to do it, so it required -- it was a unanimity requirement effectively because there were only five sitting members.

Q. So you write, "There is some disconnect here. We think they are days from failure. They think it is a temporary problem. The disconnect is dangerous."

What did you mean by that, sir?

A. Well, again, I was dismayed by the range of reports I was getting about how serious the problem was. As the earlier e-mail showed, at least some AIG board members thought it was a sort of a temporary situation that could be addressed relatively easily. Others thought -- some of our board staff thought that they were in much more severe condition.

So we wanted them to -- you know, to focus on their issue and focus on their problem and find a solution, if at all possible, very strong preference for a private sector solution.

Q. The -- a little farther down, you write, "I would be willing to consider lending to them against good collateral if we have explicit and public commitments regarding the actions they will take to wean themselves and restore stability."

Do you see that, sir?
A. Yes, I do.
Q. And what was your thinking there?
A. Well, I was simply holding open -- and again, I don't have the unilateral power, but from my own perspective, I was holding open the possibility of making a 13(3) loan. And the requirements would be first good collateral to satisfy the law and my own view of how these loans should be made. But secondly, we needed to have a plan from AIG about how they would ultimately repay the loan and remain a viable firm. And those were important considerations.
Q. Now, are you making a decision here to lend?
A. Certainly not.
Q. Would you expect or did you expect at the time the recipients of this e-mail to convey your thoughts here directly to AIG?
A. No.
Q. Why?
A. I thought the appropriate posture with AIG was Don Kohn's approach, which was to make no commitments and encourage AIG to find a private sector solution.
Q. The next line here says, "This does not necessarily bring a whole new class of firms to the window."

Do you see that?
A. Yes.
Q. What did you mean?
A. Well, one of the issues related to lending to AIG was that it took us into a whole new category of firms. We had existing authorities to lend to banks, and by using our 13(3) authority we had expanded the programs to cover all the primary dealers. But, you know, we felt it was important to draw lines because we didn't want to be in a situation where every company in America would call us up and ask for a loan.
So going to lend to AIG would take us yet into another category of firms, insurance companies, with which we had no relationship and very little information. I there, frankly, I was trying to ask myself was there some way we could kind of stretch the definition of "primary dealer" to include AIG.
And Don Kohn replied, well, first of all, lots of insurance firms do have securities functions. And secondly, they are an insurance company, they do have an insurance charter, they have all the special features of insurance companies, and we don't have the relationship with them or the information about them that we do with the banks and the primary dealers.
And so the issue here was, you know, going from

the existing set of firms that were eligible for loans, whether -- you know, what would happen if we went to a whole new set of firms, perhaps inviting, you know, other, other requests from yet a still broader category of firms.

Q. If you could turn to DX 279.

I'm sorry. I jumped ahead. Let's make that DX 286, which is already in evidence.

So the bottom line is -- I mean, the bottom e-mail is one that we had -- have already discussed. Now, there's a middle e-mail and a top e-mail.

Do you see that, sir?

A. Yes.

Q. And the top e-mail is from you, and it says, "Thanks"?

A. Yes.

Q. And this is September 13 at 11:38 a.m.

Do you see that?

A. Yes.

Q. And so you're receiving -- the lower e-mail is from Vice Chairman Kohn to you, and it's -- it's 11:36. And he writes, "Staff is talking to them now trying to get more specific plans. I don't think we will get much so long as they think we will be there -- that's why I would take a tough stance initially."

Do you see that?

A. Yes.

Q. And did you agree or disagree with that approach?

A. I agreed with it.

Q. And then farther down, he writes, "Lending may prove necessary, and so long it is purely and obviously liquidity support and not solvency we'll be within a central bank function, but we should do everything possible to avoid it before we do."

Do you see that?

A. Yes.

Q. Did you agree with him that lending may prove necessary?

A. Yes. Unfortunately. We were dealing with a situation in which Lehman had just failed or was failing, of great financial stress, and so an intervention to prevent the failure of AIG, highly undesirable, but it could prove necessary.

Q. And the bottom part, "we should do everything possible to avoid it before we do," do you see that?

What was your position on that?

A. Absolutely.

We very, very much did not want to make that loan.

Q. Turning to DX 279 -- also already admitted, Your Honor -- the bottom part is from you, sir, and it's dated September 13, 3:54 p.m.

A. One second, please.

Q. I take it back. It's from Don Kohn, Vice Chairman Kohn, to you --

A. Right. Yes.

Q. -- September 13, 3:54 p.m.

And again the subject is AIG. And farther -- it -- towards the -- the -- the third sentence, he's referring to a conversation with AIG. He said, "I told them we were 'very reluctant' to open up our discount window to them when it wasn't clear they had a good plan for getting enough capital into the company and were depending on asset sales over a long period."

Do you see that?

A. Yes.

Q. Was that consistent with your understanding and position as to what approach you wanted him to take?

A. Yes, it was.

Q. And did you understand that he was closing the door, or the window, to AIG at that time?

I'm sorry, Your Honor.

A. No. He was only saying that he was -- that we were reluctant, and in particular the reluctance was in part due to the fact that they had not presented us with a very clear plan.

Q. And then farther down, it says, "They said they had prospects for 10 b of immediate private equity and maybe about 10 b of new equity (sic) from convincing Dinallo to allow them to do some sec lending from the insurance companies to the HC." And this is important for the point I want to show you. "They needed 20 from us to buy time to sell selected assets."

Do you see that?

A. Yes.

Q. And the thing I want to point out is, it says "to sell selected assets."

Did you have an understanding as to AIG's plan to ultimately -- I mean, as the things were evolving, to ultimately pay back the loan?

A. No, sir. It wasn't very clear as of this point. Earlier they had said they don't want to sell core assets, so it didn't sound like they were going to be selling major parts of their business, so I assumed that "assets" meant either financial assets or perhaps some peripheral businesses that they would try and dispose of.

Q. Finally, he ends, "I told them to make plans as if we wouldn't be there for them, but also to keep in touch."

Do you see that?

A. Yes.

Q. And was that consistent with the position that you thought he should take?

A. Yes.

Q. And then -- that e-mail was to you. The top e-mail then is from Scott Alvarez and you're cc'd.

Do you see that?

A. Yes.

Q. And I'm not going to read this at all. All I'm going to point out is, is there -- or ask you is, is there a discussion here about AIG's efforts with the private sector at this point?

A. Well, there's reference to the discussions with J.C. Flowers.

Q. And did you have an understanding just -- obviously I'm not asking about firsthand knowledge, but what was your understanding as to what was going on with AIG's efforts at that time?

A. I understood that there were some private sector negotiations going on with at least one and maybe more private equity firms.

There are lots of different ways in which a private equity firm could inject capital into a company. It could buy assets, it could take an equity position, and so on.

But I really had very little information, practically no information other than the fact that these negotiations were going on, and the fact that they were going on gave me some hope to think that perhaps a -- some kind of private sector solution might be possible.

Q. So let's turn to Sunday, September 14.

Do you recall if the Board of Governors met on Sunday, not related to AIG but on any topic?

A. Yes, it did.

Q. And what was the Sunday, September 14 meeting regarding?

A. Well, the -- if I have it correct, the -- Lehman had just or was about to announce its bankruptcy, which we thought would greatly intensify the panic, including the pulling back from the repo market and other short-term funding markets.

And so to increase the effectiveness of our lender of last resort lending, we expanded the range of collateral that we would accept for loans to include basically the same collateral that would be available for lending in the repo market, so essentially we were trying to backstop the repo market and make sure that firms that relied on the repo market would have some access to credit even if the market went into a -- if it froze up.

Q. Let's go to DX 318.

Your Honor, this is also admitted.

Do you have an understanding of what this document is, sir?

A. Well, it's an e-mail from Vice Chairman Kohn to me and Geithner, copying several staff members. This would have been on Sunday, so on Sunday, they -- they now apparently need 50 billion liquidity.

I don't know. Can you help me -- what do you want me to focus on?

Q. Sure.

Did you have an understanding over the weekend that AIG's request for liquidity was increasing?

A. Yes. Yes. The number kept increasing over the weekend and which made me concerned about how much they understood their own situation and what steps they were taking to solve the problem.

Q. At the bottom, in the last -- in the second paragraph, second sentence, Vice Chairman Kohn writes, "Don't know what needs to happen to get them to consider more serious restructuring/strategic partner. I was completely noncommittal, didn't commit at all on request. Simply said I would relay conversation to colleagues,"

and then he goes on.
Do you see that?
A. Yes.
Q. What was your understanding as to the position that the Board of Governors had taken with AIG as of Sunday, September 14?
A. Our position was certainly not categorically that we would not lend under any circumstances, but we were still in a mode of hoping that AIG would find a private sector solution and we wanted to encourage that as much as possible.
Q. Your Honor, we're going to go to DX 1444.
And sir, as I see it, this is an e-mail and it is attached to and sending a memo; is that right?
A. That's right.
Q. And do you recognize this document?
A. Yes, sir, I do.
Q. What is it?
A. So the staff had prepared a preliminary memo on the question of whether we should make a 13(3) loan to AIG. And Brian Madigan, who was the head of the Division of Monetary Affairs, had circulated it to me and it appears to be also to Vice Chairman Kohn to ask for comments on the memo.
So I read the memo. I was composing an e-mail,

this one, when Madigan came to talk to me and I conveyed to him directly my thoughts on the e-mail -- on the memo. And then to memorialize it and make sure it was clear, I actually sent the e-mail.

MR. DINTZER: Your Honor, we move for the admission of DX 1444.

MR. BOIES: No objection, Your Honor.

THE COURT: Defendant's Exhibit 1444 is admitted.

(Defendant's Exhibit Number 1444 was admitted into evidence.)

BY MR. DINTZER:

Q. Sir, I'm going to take you first to the memo.

If you could go to page 2 -- you've already indicated that you read it -- the -- and it's clearly -- it's marked "draft."

What was the general subject about -- of this memo? What was Mr. Madigan trying to do?

A. He was trying to look at the costs and the benefits of making a loan to AIG, a 13(3) loan to AIG. That included looking at the potential risk to the system of an AIG failure.

But on the cost side, he was concerned that a loan might prevent a possible private sector solution, which of course again was our strong preference. And he talked about the issue of moral hazard, which, again, if we bail out people, that's going to reduce market discipline on that firm and other firms in the future.

And in this draft, he recommended -- well, he starts off by saying on page 12 that all the alternatives are unattractive and the information is incomplete, but because of moral hazard concerns, the provisional recommendation of this memo, the last sentence, was that the Federal Reserve not provide 13(3) loan to AIG.

Q. So it -- the -- and -- and -- and you got to the last sentence, where he says, "Consequently, staff recommends that the Federal Reserve not provide an IPC loan to AIG"?

A. Correct.

Q. And -- and the -- a little above that, in the same paragraph, his comment "While there would be near-term benefits to lending in terms of increased financial stability, those benefits would appear to be outweighed by the costs to the economy of the attendant creation of moral hazard, especially considering that the efforts to raise liquidity through other means seem likely to succeed. Even if those efforts fail, however, the costs of an AIG bankruptcy would still appear to be less than the moral hazard costs caused by lending."

Do you see that?

A. Yes.

Q. Now, I'm going to ask you in a minute what your response was, but did you understand that to be Mr. Madigan's position at the time?

A. I'm sure he wrote this with -- I would assume that he wrote this with other -- with other staff. The list of people who wrote it is on the first page, so I see six people working on it.

But yes, the staff would put together the various arguments and in this case -- in some cases they wouldn't come to a conclusion. In this case they made a policy recommendation.

Q. Now, then what did you tell Mr. Madigan about his memo? What was your feedback?

A. Well, my feedback, which is shown in that e-mail, was first that I thought that the memo was a bit dated because one of his concern -- one of its contemplated options was that the private sector solution might still be there. And this is a -- this is at September 15, 4:53 p.m. I think by that point the chances of a private sector solution were less, were relatively low I thought.

And secondly, it made a judgment comparing the moral hazard costs and the financial stability benefits of making the loan, and I didn't see much substantial analysis to make that comparison.

So my view was that while it was a good memo and it was useful, given the changing circumstances, given the fact that individual board members might want to weight these considerations differently, that they not come to this, that they not present a conclusion.

But I was -- I tried to be very transparent and put it in an e-mail and, you know, assured him that, you know, he should do whatever he thought was appropriate. And I think I had a pretty good reputation for not being a vindictive boss.

Q. So if you go to the -- and so here's your e-mail, and it discusses these items. The one thing that I'd like to point your attention to is, it says -- in the first sentence in the last paragraph, it says, "It's not that I want or am planning to make this loan, nor do I disagree with your analysis."

Do you see that?

A. Yes.

Q. And does that capture what your thinking was at that time?

A. It does.

Q. And so we're looking at Monday, September 15, at 4:53.

What was your thinking right then?

A. Well -- and again, the basic considerations that he was laying out, on the one hand the benefits, potential benefits of preventing the collapse of AIG versus the costs of moral hazard and risks to the taxpayer and the like, I mean, those are the right trade-offs to consider.

But I thought -- one of the concerns I had about the memo was that it seemed to be assuming a set of circumstances, and my view was that even as late as Monday afternoon there was still a lot to be learned about what kind of loan would be needed, whether there was still a private sector solution, what would the terms be, what would the collateral be, would this be the right choice given the other concerns and trade-offs.

So at this point, as I can -- as it shows, I -- I agreed with the basic analysis, but I thought that given the shift, the changing circumstances, and the fact that individual board members might have different views about the relative weights of different costs and benefits that it would be probably better to not to make a firm recommendation at this point.

Q. Sir, if you could turn to DX 382, which is admitted, Your Honor.

And this is a two-part e-mail, and you're not listed on the top, and so I'm not going to ask you about the top, but I believe you're the recipient of the bottom. Is that right, sir?

A. I haven't found it yet.

Yes. At the bottom is an e-mail from Governor Warsh to me. And I'm not listed on the top one.

Q. And that's later that evening; is that right, 8:05 Monday evening?

A. That's right.

Q. And it says "Subject: AIG. Received report tonight on capital hole at AIG; far worse than expected; hole too big to be filled, according to Goldman, Morgan. Not good."

Now, what was your understanding, sir, at this time when -- after you got this notification from Mr. Warsh or from Board Member Warsh?

A. Well, that was very worrying. If the company was truly insolvent and couldn't post enough collateral to get it through -- both get it through its cash needs and to maintain long-term viability, then, just like in the case of Lehman, we might not have the option of making a loan and we might not have any way of preventing its collapse, so this was -- this was a -- very disturbing news.

Q. And what did you think about the likelihood of a loan at this point, if you can recall?

A. Well, I -- at this point where we were was that President Geithner was going to and his team in New York were going to look at the situation really carefully and try to figure out what, if anything, was possible, so I was looking to his analysis and their analysis to inform me about what could be possible. But clearly the very fact that they might not be solvent was of concern that itself might have been sufficient to make a loan infeasible.

Q. Now, on Monday night, was there anything else on your plate that you were thinking about?

A. Yes. It was quite a week for me. Monday -- of course, the weekend was Lehman weekend. Then Tuesday was the meeting, the regularly scheduled meeting of the Federal Open Market Committee, the monetary policymaking committee over which I reside. We had a monetary policy decision to make, and so I had a lot of work to do to prepare for the meeting and to consult with colleagues, and so on.

Q. Does the president of the New York Fed typically attend FOMC meetings?

A. Yes. The president of the New York Fed typically, always in fact, serves as the vice chairman of the FOMC, and so it would be extremely unusual for the president of the New York Fed not to attend an FOMC meeting.

Q. Did -- that week, did President Geithner actually attend the FOMC meeting?

A. No, he didn't. We discussed it and we agreed that it would be better if he stayed in New York to work on the AIG situation and send his executive vice president in his stead.

Q. So let's turn to September 16, Tuesday morning.

What do you remember about Tuesday morning before the board meeting, to the best of your memory, sir?

A. Well, we had a lengthy conference call -- I believe it lasted more than an hour -- that included at various points Secretary Paulson and President Geithner, where he -- where President Geithner reviewed broad outlines of the situation but, you know, related to the work -- the work that had been done overnight. And we discussed the implications of the failure of AIG for the financial system.

I don't -- I'm not able to exactly divide what was discussed between the first call that went for over an hour and made me be late to the FOMC meeting and a second call which I took during a break at the FOMC meeting, but between those calls, we were updated and informed by President Geithner about what might be possible in terms of a loan, informed that there were no private sector options available, and we discussed the potential consequences of the AIG's failure.

Q. Ultimately was it decided that -- that assistance could be offered to AIG?

A. Yes. President Geithner, after working with his team overnight, told us at some point that he was willing to say that the loan was secured to his satisfaction as required by the 13(3) law.

Q. And you've already testified that there was a board meeting that day, and I believe you testified that it was broken into two parts; is that right?

A. That's right.

Q. Do you have specific memories of what went on -- you've already testified. I'm not -- I'm trying to keep things moving, so I don't want you to duplicate your testimony.

Do you have a -- do you have specific memories of what was said in the board meeting?

A. Well, so first we were trying to fit the board meetings in with the FOMC meeting, so the first portion of the board meeting took place during the lunch break of the FOMC meeting and it took place in my office. And then after the FOMC meeting was concluded and the other members of the FOMC left, the board meeting moved into the large boardroom where board meetings are normally held.

I don't have very strong recollection of what was said in each part of the meeting, but the board considered -- the board was briefed on AIG's situation, on New York Fed's proposals for making a -- making the loan. We discussed certainly whether or not the loan would be sufficient to create a viable company that could repay the loan. And we discussed the costs and benefits in terms of financial stability, moral hazard, and so on, that would attend such a loan.

Those are the general things that we -- we had talked about. I don't have much specific recollection about the actual presentations nor the comments by individual board members.

Q. If you could go to JX 63, which I believe plaintiffs provided to you but I think may also be, unless I'm mistaken, in the binder that we handed you. Maybe not.

Do you have it, sir?

A. The minutes?

Q. Yes, sir.

So starting at the -- on the first page, under Attendance, it has five names: yourself, Mr. Kohn, Mr. Warsh, Mr. Kroszner, and Ms. Duke.

Do you see that?

A. Yes.
Q. Who are those people?
A. Those are the five sitting board members.
Q. And then it has some of the names that the Court is familiar with, Mr. Alvarez.
And who is Mr. Ashton?
A. He was the deputy general counsel working for Mr. Alvarez, and he from the very early on was engaged in AIG-type litigation negotiations.
Q. Farther down it mentions Mr. Madigan, who you discussed earlier.
A. Yes.
Q. Who is Ms. Danker?
A. Ms. Danker was the deputy director of the Division of Monetary Affairs. She was -- she tended to assist with the logistics of meetings.
Q. And finally, it says from the federal -- or actually not finally, but it says from the Federal Reserve Bank New York and it has Mr. Geithner or President Geithner, Mr. Baxter, and Ms. McConnell.
Do you recall who Ms. McConnell is?
A. Yes. She's a senior economist at the New York Fed.
Q. And if you turn the page, there's two other individuals under Department of Treasury?

A. Yes.
Q. Obviously we know who Secretary Paulson is.
Who is Mr. Jester, to the best of your memory?
A. Mr. Jester was an advisor of Mr. Paulson who -- I think his -- his expertise was in investment banking areas, and so he would have been a good person to consult in these issues.
Q. And was it common for the -- for members of the Department of Treasury to sit in on a Board of Governors meeting?
A. No, it wasn't.
Q. Why not?
A. Well, I mean, normally we are -- first want to be sure that we have independence of the board and the administration. But secondly, there's, you know, just a question of how often is it that the matters that are being discussed by the board require, you know, Treasury input.
In this case we felt that in order to have a thorough discussion of all the factors involved, in particular since the Treasury's views were going to be important in our thinking about the effects on the economy, for example, that having these two gentlemen on the line -- and I don't know how much of the meeting they were at. It could be they were just for part of the

meeting. I don't know. But we thought that having their views and being able to take questions from us would be useful.

Q. And the minutes -- I'm going to avoid going through the minutes in too much detail because you've already spoken about them. But just in the second paragraph of the minutes, it says, "Their discussion of terms included collateralizing the loan with all the assets of AIG, receiving a 79.9 percent equity interest in AIG."

Do you see that?

A. I do.

Q. Is that consistent with your memory that -- of at least some of what was discussed?

A. Yes. I know that in general terms we approved terms similar to the term sheet proposed by the Federal Reserve Bank of New York.

Q. And on the second page, it says, after the first line there, "The New York Reserve Bank may, as it deems appropriate, impose conditions on its extension of credit to AIG, such as those described in the proposed Summary of Terms for Senior Bridge Facility," and then in parentheses it says "Agreement."

Do you see that?

A. Yes.

Q. And do you have an understanding of what the term "such as" there might mean?

A. Well, the term sheet that we had in front of us was -- first of all, there were -- it was not fully specified. There were some bracketed terms.

And secondly, we understood that given the haste in which these -- a loan and the contract had to be put together that in -- in the process of finalizing the agreement, there might have to be, for a variety of reasons, modifications to the terms in the term sheet. And it was our intent to give the Federal Reserve Bank of New York reasonable latitude to make adjustments or to fill in the blanks such in a way that was consistent with the overall will of the board.

Q. Was that consistent with the Board of Governors' practice?

A. It was, yeah, very frequently the case that the Board of Governors would give discretion either to the staff or to the chairman or whoever was relevant to -- to approve final decisions that were within the scope of what the board had approved.

Q. If you could turn to the next page, the resolution.

Now, is it your practice -- or was it your practice when you were on the Board of Governors that you would be familiar with the resolution that the board was voting on before casting your vote?

A. Before casting the vote, certainly.

Q. And do you actually remember either seeing or having this resolution presented to the board? Do you have a memory of that?

A. I don't. I don't recollect.

Q. One way or another, is it your expectation that you would have understood the contents of the resolution before making your vote in this case?

A. I'm sure that we would not have approved a specific resolution without knowing what was in it.

Q. In the second paragraph here, in the second sentence, it says, "The New York Reserve Bank may, as it deems appropriate, impose conditions, such as those described in its proposed lending facility term sheet, on its extension of credit to AIG."

Do you see that?

A. Yes.

Q. And what's your understanding of what that does?

A. That gives the New York Federal Reserve Bank discretion to modify the terms of the loan depending on circumstances that arise in the finalization of the credit agreement. And the term sheet that was given to us is a model but certainly not the -- by any means the final word of what the credit agreement would look like.

MR. DINTZER: You know, Your Honor, I'm reaching for a document that I'm not finding. We're a little early, but could I ask the Court that we might take our break now?

THE COURT: Sure. We'll take a lunch break. Since it's Friday, we'll reconvene at 1:45.

MR. DINTZER: Thank you, Your Honor.

(Whereupon, at 12:39 p.m., a lunch recess was taken.)

AFTERNOON SESSION

(1:45 p.m.)

THE COURT: Thank you. Please be seated.

You may go ahead, Mr. Dintzer.

MR. DINTZER: Thank you, Your Honor.

BY MR. DINTZER:

Q. Sir, I think we had JX 63 in front of you, and you don't even have to turn back to it. It's just a question, it's regarding the minutes. I think you spoke to Plaintiffs' counsel about the fact that you had seen them before, and I can't recall if you were asked this question.

Does the Board vote to approve past minutes?

A. Yes, it does.

Q. And if you could just briefly describe that practice.

A. Yes, the staff draft minutes for each meeting. They bring it to the chairman for -- you know, for approval, and pending the chair's approval, there is then a -- what's called a notation vote typically, where the members of the Board vote to approve via computer.

Q. No further questions on that document, sir.

Did you -- now, you talked about some of the standards earlier, about what was necessary to -- for the Board to approve a 13(3) loan. One was the inability to secure adequate credit elsewhere. Do you remember that?

A. Yes, sir.

Q. Was there -- was there generally, as best as you understand. An agreement among the board members on September 16th that AIG couldn't secure adequate credit elsewhere?

A. Yes, I think so.

Q. And for you, sir, what -- what led to your conclusion regarding that?

A. Well, first, in general, financial conditions were very disruptive, and funding markets were stressed. And then, of course, AIG was coming to us and saying that they had exhausted their private sector options.

Q. And is there a bright line test for determining when a potential borrower might have been unable to secure adequate credit, or is that -- how is that considered?

A. Well, the word "adequate" is obviously a term that invites judgment, and so clearly there's a judgment as to whether markets are functioning reasonably well or whether they have been significantly disrupted.

Q. Now, with regard to another prong, "secured to the satisfaction," that's actually left to the District's president. Is that right?

A. That's right.

Q. Do you have an understanding as to why that might be?

A. Well, it goes back to the origin of the Federal Reserve, when there was the -- the Reserve Banks around the country had some degree of autonomy, and they were the ones who made the loans to the banks in their own districts or to any borrower in their own district. And so it was really up to them, being close to the borrower, so to speak, to make a determination about whether the borrower was creditworthy.

Q. Does that still hold, that the lending bank is closer to the borrower?

A. Well, in this case, the New York Fed has an awful lot of markets and financial market expertise, so they did have considerable relevant expertise, yes.

Q. You've used the term "windfall," sir, and if you could just briefly explain it.

A. Well, in this particular instance, most firms that are unable to meet their obligations in a capitalist economy fail, go out of business, which in almost all cases means that the equity holders are wiped out.

When the Federal Reserve or the Government, in general, undertook a one-off intervention in order to prevent the collapse of a systemically important firm, the goal is not to help the firm, per se, or the owners of the firm, but rather, to ensure overall systemic stability. But as side effect to that, it could often be the case that the shareholders retain some value. So, they had a windfall relative to the normal option of filing bankruptcy.

Q. Was the Board or would the Board of Governors have been willing to negotiate the terms of the rescue with AIG?

A. Well, we set it up in a way that there was not going to be any negotiation. We had a meeting on the afternoon. Events were turning very quickly. I had expressed confidence in President Geithner in working out the ultimate deal.

Immediately after the board meeting, I went to the White House -- oh, I'm sorry.

Q. No. No, that's fine. I'm going to caution you not to reveal any communications, but if you want to reveal the existence of the meeting, you can do that.

A. Immediately after the board meeting I went to the White House, and then subsequently Paulson and I met with members of Congress who we informed about the proposed transaction and the terms of the deal. By the time all that was done, it was close to 8:00 or past 8:00, so there was really no option, and I was very comfortable with taking that stance.

Q. Were the terms of the loan being offered to AIG intended to punish the company for its past conduct?

A. Not to my mind. I -- if that was the desire of one of the board members, I don't think that would be in any way inconsistent with the law, but my own sense was that the importance of minimizing the windfall was in order to reduce the moral hazard.

And also, you know, much of the anger that we got from the American people was about the extreme unfairness of the fact that this company got bailed out and so many other companies failed; and reducing the windfall, at least to some extent, mitigated the amount of unfairness.

Q. Was AIG's prior conduct irrelevant when considering the terms of the loan?

A. It wasn't irrelevant in the sense that the prior conduct presumably contributed to its situation, where it was turning to us for a one-off intervention, but we were not -- at least I was not trying to make any offhand judgments about whether the firm had taken excessive risks or what the ultimate source of the collapse was.

Q. Now, Plaintiffs' counsel asked you extensively about whether you had a position, at the time that you voted on the loan, about AIG's mismanagement or management and the like. Do you remember those questions?

A. Yes, sir.

Q. And he also put in front of you the hearing transcript for the Financial Crisis Inquiry Commission. Do you remember that?

A. Yes.

Q. Did anything happen during that hearing that affected your -- and this obviously is September 2010 -- affected your understanding as to whether AIG had been well managed in the time leading up to September?

A. Well, after the loan was made, over time, I did become convinced that there were significant problems of risk management at the firm, and it was commented to me in the open hearing by the FCIC, by one of the commissioners, that the CEO, the chief financial officer, and the chief risk officer of AIG had testified that none of them knew anything about the possibility that these huge collateral calls could happen that would wreck the company, and that seemed to me to be an extraordinary failure of risk management.

Q. And I'm going to turn you -- now, Plaintiffs offered you -- and they offered into evidence, Your Honor -- PX 599, but they didn't include certain pages that we wanted to put in front of the witness, so we have also included PX 599, if you would turn to that, sir, and that would be in the white binder.

If you could go to page 46, and actually it begins on page 45, Commissioner -- I am going to butcher it so I'm just going to spell it, G-E-O-R-G-I-O-U -- Commissioner Georgiou was making a statement, and at line 12 on 46 -- just tell me when you see that, sir.

A. Yes, I see it.

Q. And he says: "You know, we've had some extraordinarily startling testimony in the course of our eight months or so of hearings. We heard from the CEO, the Chief Financial Officer, and the Chief Risk Officer of AIG that they did not know that the products sold by the Financial Products Division had provisions in them that, if the AIG's ratings went down, or the tranches that they had insured against in the credit default swaps, the failure of which they'd insured against, went up, that they had collateral calls which were ultimately what brought AIG to the brink of insolvency."

Do you see that?

A. Yes, sir.

Q. Now, he was saying that to you. Is that right?

A. Yes. I was testifying at that time.

Q. And your response was, "Well, it's our responsibility and the other regulators to make sure that their management is effective and that they have a good risk management system."

Do you see that?
A. Yes.
Q. No further questions on that document, sir.
A. May I add that we were not the regulators of AIG?
Q. Now, in September 2008, what was your understanding of the Fed's authority to set the terms of the AIG loan?
A. My understanding from 13(3) was that it provided wide discretion to the Board to set the terms of the loan, and in each individual case, I relied on legal counsel to confirm that.
Q. And what was your understanding as to whether -- in September 2008 as to whether the Fed had the authority to condition a loan on AIG -- to AIG on equity?
A. The fact that General Counsel Alvarez and Deputy General Counsel Ashton and Baxter and others proposed this plan, I took from that that they had agreed that it was within the authorities of the Federal Reserve under 13(3). I saw nothing myself in the statute that seemed to contradict that. What the Federal Reserve was doing was taking additional compensation to give the taxpayers some upside if the firm did well.
Q. Now, you mentioned that after -- that after the Board of Governors voted, that you went to Congress. Could you describe that meeting, please?

A. Yes. Secretary Paulson and I met with about 17 or 18 senior members of the House, the Senate, both Republicans, Democrats, mostly people on the Financial Services Committees, and we explained what we were proposing to do and described the terms to them and answered their questions.

The Senate Majority Leader then told me that this was our responsibility and our decision and that it was not anything that the Congress was going to ask permission to do.

Q. Did you explain -- and did -- did -- did you understand that you had the authority to do what you were doing?

A. Yes, of course.

Q. And after you -- and you mentioned a meeting with the President. After those meetings, what came next? What did you do next?

A. After those meetings, I returned to my office.

Q. And did you learn about AIG's response to that offer, to the loan offer?

A. At some point either on the way back from Congress or in my office, I learned that they -- the board had accepted the terms that had been proposed.

Q. Sir, I'm going to ask you to turn to DX 979. It's in the white binder.

A. I have it.
Q. And do you recognize what this is?
A. It's an email from me to Michelle Smith, who's the head of public affairs at the Board of Governors, and her reply.
Q. And if you look in the middle email, is that an email from you?
A. Yes, it is.
Q. Okay. And the subject is, "Here is the final press release going at 9." Do you see that?
A. Yes.
Q. And is that what Michelle Smith sent to you?
A. Yes. That's the -- that's the content of the email below.
Q. And then you sent an -- in your email, you wrote, "Is management out?" Do you see that?
A. Yes, I do.
Q. What specifically were you asking?
A. Well, there had been I think some agreement that -- that the -- one of the conditions of the loan or, alternatively, the very strong suggestion would be that the management -- the senior management be replaced, and I just wanted to know what had happened.
Q. And what was -- what response did you get?
A. Well, as you know, CEO Willumstad resigned, and

according to this email, AIG was going to announce that themselves.

Q. Okay. No further questions on the document, sir.

Oh, except for, Your Honor, we will offer it into evidence, DX 979.

MR. BOIES: No objection, Your Honor.

THE COURT: Defendant's Exhibit 979 is admitted.

(Defendant's Exhibit Number 979 was admitted into evidence.)

BY MR. DINTZER:

Q. Now, you spoke with Plaintiffs' counsel a little bit about the concept of political risk. Do you remember that?

A. Yes.

Q. What does that term mean to you?

A. It's the risk that the Legislature would, in response to political pressures or concerns, would act to overturn or do damage to the effort to contain the crisis.

Q. Was it the job of the Board of Governors to consider political ramifications?

A. Well, the Board of Governors is free, I think, to consider political ramifications, not in a partisan sense but to the extent that -- in two senses. One is that to the extent that we wanted to have support for our efforts to stabilize the financial system, we didn't want to outrage the public more than absolutely necessary; and secondly, just from the point of view of legitimacy, we are, after all, appointed officials, and I think there are limits to how far appointed officials should deviate from the general will.

Q. Did the political risks of the AIG -- I'm sorry, did the AIG loan carry political risk?

A. Very much so.

Q. Did the political risks of the AIG loan affect the Fed's response to the financial crisis?

A. Oh, yes, I believe it did. It created a great -- a huge backlash, not just the AIG loan, but several subsequent events, such as the AIG bonus flap, for example, which poisoned public support for TARP and some of the other efforts that we made.

I think it was the political backlash on AIG that had substantial effect on some of the outcomes in the Dodd-Frank Bill, in particular, you know, the types of -- the creation of the -- the FSOC, for example. The Financial Stability Oversight Counsel, rather than giving broad supervision of the financial system to the Fed, was basically a political outcome in my view that was dictated by the anger at the Fed.

Q. In deciding the terms of the AIG loan, was there a conflict between the political concerns and the economic policy?

A. No, there was no conflict. They just reinforced each other. Both the political concerns and the economic policy concerns went in the same direction, first that we should minimize the windfall and reduce the benefits given by the bailout, reduce the unfairness, and, of course, to protect the taxpayer, to take sufficient compensation that the taxpayer would be rewarded for the risk that the loan was incurring.

Q. Do you have an opinion as to whether AIG's financial distress affected other institutions in the weeks after the loan was made?

A. Well, after Lehman weekend and the AIG rescue, the financial crisis greatly increased in intensity. Trying to parse it out between various events is not a scientific endeavor, but in my view, the AIG near collapse was a contributor to the significant intensification of the crisis in mid-September.

Q. Was AIG entitled to consideration for a 13(3) loan? You talked earlier about the discretion. Were they entitled to have a 13(3) loan considered?

A. Absolutely not.

Q. Why?

A. This is a -- the 13(3) lending is an authority of the Federal Reserve, and the Federal Reserve has discretion to make those loans based on policy considerations and the satisfaction of certain conditions, but there's certainly nothing in the law or in precedent that I'm aware of that requires the Federal Reserve to make a loan or to consider a loan for any particular borrower.

Q. Did you have a view as to whether the loan to AIG carried any risk?

A. Yes.

Q. Risk of loss?

A. I did believe it had risk of loss.

Q. Why did you think the loan carried risk of loss?

A. Well, you're making a loan, an $85 billion loan, in the middle of a financial crisis, to a company which can't get credit elsewhere, that you don't know too much about because it's an insurance company, where the collateral is the assets of the firm, which are very hard to value and are certainly not marketable or salable, and which -- where the collateral is not independent of the value of the firm. If the firm collapses, the collateral value collapses.

So, putting all those things together, you know, no reasonable person could conclude that it was anything other than a risky loan.

Q. Did you think that the loan would be repaid?
A. I did expect it to be repaid.
Q. Did you have an opinion as to what would happen to AIG's subsidiaries if AIG -- if the AIG parent ended up in bankruptcy or defaulted after the loan was made?
A. This was the -- the risk I was talking about. If AIG had defaulted, its insurance subsidiaries around the world in many cases would have been seized by local regulators to ensure that the policyholders got fully protected, and so the value of many of the subsidiaries would have been greatly reduced.
So, as I said before, the collateral taken on this loan was not independent of the firm itself, and the collapse of the firm would have destroyed much of the collateral.
Q. Okay, sir. I'm going to take you to -- in your white binder to DX 1611.
A. 1611?
Q. Yes, sir.
A. I don't seem to have it.
Q. In the white binder?
Oh, it will be there in just a second, sir.
A. Thank you.
Q. Do you recognize this, sir?
A. Yes. It's a speech that I gave in October 2009.

Q. And this was given just a few weeks after the -- I'm sorry, about a year after the AIG loan was made. Is that right?

A. About a year after, yes.

Q. Okay.

Your Honor, we move for the admission of DX 1611.

MR. BOIES: No objection, Your Honor.

THE COURT: Defendant's Exhibit 1611 is admitted.

(Defendant's Exhibit Number 1611 was admitted into evidence.)

BY MR. DINTZER:

Q. And the title is "The Federal Reserve's Balance Sheet: An Update." Can you just explain what that means?

A. Well, the Federal Reserve is a Central Bank. It has a balance sheet. Its liabilities are primarily currency and reserves for the banking system. What was unique about this crisis was the -- both the size of the balance sheet but also the composition of the assets.

The assets, which normally include mostly just treasury securities, where it was expanded to include mortgage-backed securities, which is part of the quantitative easing program that the Federal Reserve undertook, but in addition, there were, of course, on the balance sheet as assets the various loans that had been made both through the broad-based facilities and through the one-off interventions.

Q. Okay. And if you could turn to the second page of 1611, you have a heading, "The Asset Side of the Federal Reserve's Balance Sheet." Do you see that?

A. Yes, I do.

Q. And then the last sentence of that first paragraph says, "The assets on the Federal Reserve's balance sheet can usefully be -- can be usefully grouped into four categories."

And it says that number (1) is short-term lending programs that provide backstop liquidity to financial institutions such as banks, broker-dealers, and money market mutual funds. Do you see that?

A. Yes.

Q. And what are you talking about in that -- in number (1) there? What's the purpose of those?

A. I'm talking about broad-based liquidity facilities that provide the Bagehot function of being a lender of last resort, and examples would be the discount window for banks, the PDCF for broker-dealers, and the AMLF for money market mutual funds.

Q. Okay. And so that number (1) kind of keys into the first -- the next -- the first subheading there, do you see that, "Short-Term Lending Programs"?

A. Yes, yes.
Q. And so if you go to -- so, if you go to the next page, page 3 in the middle paragraph.
A. Yes.
Q. It says, "To make these loans, which we judged to be necessary for the stability of the financial system and of the economy, the Board of Governors invoked general emergency lending authority provided by section 13(3) of the act, which allows the Federal Reserve to make secured loans under 'unusual and exigent' circumstances to any individual, partnership, or corporation."
Do you see that, sir?
A. Yes, I do.
Q. And then the next sentence is the one I wanted to -- "Using this authority, the Federal Reserve made short-term collateralized loans available to primary dealers through an analogue to the discount window, called the Primary Dealer Credit Facility."
Do you see that?
A. I do.
Q. So, this is connecting the PDCF to these short-term lending programs that provide backstop liquidity. Is that right?
A. Yes, it is.

Q. And the next paragraph that we were looking -- from the one we were looking at, starts," The unstinting provision of liquidity by the central bank is crucial for arresting a financial panic."

What did you mean by that?

A. Well, this goes back to the discussion that we were having of Bagehot and lender of last resort. When there is a run of short-term funding, if no action is taken, the run can intensify, and the banks or the -- whoever the financial firms are that depend on the funding will have to start dumping assets, and you can get an intensifying, contagious crisis.

By lending against good security, the Central Bank, the lender of last resort, can replace the missing funding, stabilize the system, reduce the panic, and prevent the need for firms to have to sell their assets at fire sale prices. So, it's a long-standing approach, even before Bagehot really, to addressing financial panics.

Q. Okay, sir. Now, let's go back to page 2 of this document, 1611, and go to number (2) in the list that you have there. "Targeted lending programs, which include loans to nonfinancial borrowers and are intended to address dysfunction in key credit markets."

Do you see that?

A. Yes.
Q. And what does that mean?
A. Well, some of these funding markets, such as the commercial paper market, for example, were in a state of panic, and lenders were pulling back or refusing to lend, except for overnight.
Another example was the asset-backed securities market, which is very important for providing credit to a broad range of households and businesses. So, these markets were dysfunctional, and the Federal Reserve developed, again, broad-based programs, open to all borrowers within a certain class, to try to restore the functionality of those -- of those markets. And it was pretty successful in doing so.
Q. And so if we go to page 3 again, the heading "Targeted Lending to Address Credit Market Dysfunction," do you see that?
A. Yes.
Q. And at the bottom -- and I'm not going to read it, but do you see that there's a reference there to the commercial paper funding facility, the CPFF, that's on the list?
A. Yes. Those were the two examples that I gave.
Q. And the TALF?
A. Yes.

Q. Okay. So, those two would fall into the second effort to take care of dysfunctions in key credit markets. Is that right?

A. That's right.

Q. Okay. Now, I want to jump on page 2 to that fourth entry, "Emergency lending intended to avert the disorderly collapse of systemically critical financial institutions."

What was the purpose of that?

A. This refers to one-off interventions to try to avoid the collapse of systemically important financial institutions, the impact of which would have greatly intensified the crisis.

Q. And is there a subheading -- I think it's on page 5 of the document, a subheading that tracks that entry?

A. Yes.

Q. And in addition -- and so then you say here, "In addition to the programs I have discussed, the Federal Reserve has provided financing directly to specific systemically important institutions." Do you see that?

A. Yes.

Q. And you reference JPMorgan Chase, where it was "to facilitate the acquisition of." Do you see that?

A. Of Bear Stearns, yes.

Q. And then you reference AIG. Is that right?

A. Correct.

Q. "To prevent the imminent default of the insurance company AIG."

And the next line says, "From a credit perspective, these emergency loans obviously carry more risk than traditional provisions of Central Bank liquidity."

What were you saying there, sir?

A. Well, most provisions of Central Bank liquidity are short-term loans against marketable assets to solvent firms and carry very little risk. We made thousands of loans in this form without any losses.

The loans to individual systemically important institutions involve one-off arrangements with failing firms, and I think it was evident that the risk of such loans was necessarily going to be greater than the risks of broad-based liquidity facilities.

Q. And farther in that sentence, you say, "Thus, Federal Reserve loans that are collateralized by riskier securities." Do you see that?

A. Yes.

Q. And you compared them to the rest of the holdings of the Federal Reserve. Is that right?

A. Yes.

Q. When you were saying "collateralized by riskier securities," what were you referring to?

A. Well, at this point, I was probably referring to -- this was already a year after the AIG loan. I was no doubt referring not only to the loan to AIG, which didn't -- was not collateralized by securities, but the three Maiden Lane facilities, which held risky securities against which we were making loans.

Q. And then the next paragraph says, "All that said, we undertook these operations with great discomfort and only because the United States has no workable legal framework for winding down systemically critical financial institutions."

Do you see that?

A. Yes, sir.

Q. And what were you trying to do there?

A. Well, this is a point that I made frequently, including in this book of lectures that was cited earlier, that I made a strong distinction between broad-based programs for providing liquidity to the financial markets and one-off interventions to prevent the failure of systemically critical firms.

Essentially what these one-off interventions were doing was trying to replace what was missing in our regulatory system, which is a program to resolve failing firms in a way that would avoid massive impact on the financial system.

So, it was very ad hoc, and it was very problematic for us to do it, but in the absence of a more formal resolution regime, we felt it was the best of bad options.

Whenever I discussed support for specific institutions, I almost always ended -- I guess not in this case -- but in almost all cases I would end with asking the Congress to consider developing an appropriate legal framework for dealing with failing financial institutions.

Q. And you spoke with Mr. Boies a bit about the fact that you're familiar that the final credit agreement included the equity in the form of preferred stock. Is that right?

A. That's right.

Q. Was it your understanding that that was within the scope of the authority that the Board of Governors provided to the New York Fed?

A. Yes.

MR. DINTZER: Your Honor, we have no further questions. We pass the witness -- oh, please.

THE COURT: Before we do that, I have a question about Defendant's Exhibit 1611, sir, and this is one of several speeches that we have in the record of yours, and

I wanted to know typically if the text of this document is something you prepare in advance of the speech or is it an audio recording that comes afterward or what?

THE WITNESS: No. The speeches like this are always prepared in advance, and they're released online, publicly, at the moment that I would begin to give the remarks. So, these are prepared in advance; they are not extemporaneous.

THE COURT: All right. Thank you very much.

MR. DINTZER: If I can just ask a follow-up, and I think I know the answer to this.

BY MR. DINTZER:

Q. Is there a reason why they're released publicly at the exact same time you start speaking?

A. Well, this is probably not an example, but some speeches would have information that would have market implications. For example, a speech about monetary policy which suggests that policy might be tighter or easier might move markets, and, therefore, to avoid unfair advantage to some market players, it's important to provide the information at a predictable, exact moment.

MR. DINTZER: Okay. We pass the witness, Your Honor.

THE COURT: All right, sir.

Mr. Boies, redirect?

MR. BOIES: Yes, Your Honor. Thank you.

MR. DINTZER: Briefly, Your Honor, the Plaintiffs, as I understand it -- and Mr. Boies can confirm this -- we will stipulate to the admissibility of the following documents, without reservation: PTX 11, PTX 213, PTX 393 --

THE COURT: Slow down.

MR. DINTZER: Oh, I'm sorry. I apologize, Your Honor.

THE COURT: I'm trying to write them down.

MR. DINTZER: No, I appreciate that. PTX 11 -- we have a deadline with the witness, I'm hoping to finish him today -- but PTX 213, PTX 393, PTX 447, PTX 449, PTX 466, PTX 482, PTX 491, PTX 650, PTX 15, PTX 339, PTX 361, PTX 561 -- oh, I'm -- I apologize, Your Honor. I have to withdraw -- it's my documentation here. I have to withdraw on PTX 213. That's one of the two that we're going to reserve on.

PTX 339, PTX 361, PTX 561, PTX 733, PTX 728, PTX 1212. So, that set, basically the full binder that Mr. Boies provided us, we will stipulate -- we will waive objection on those so that he can move them in. The two that we are reserving on are PTX 213, which is a news article, and PTX 662, which is a document related to

Secretary Geithner, which we believe, if it is going to be moved in, should have been moved in at the time he was on the stand.

THE COURT: All right.

MR. BOIES: What about PTX 680 and PTX 2179?

(Counsel conferring.)

MR. DINTZER: What are the numbers?

MR. BOIES: 680 and 2179.

MR. DINTZER: Why don't you begin with this and then we will come back.

MR. BOIES: In the meantime, while they're doing that offline, with the Court's permission, I will go ahead with my examination.

THE COURT: And do you agree with the documents that Mr. Dintzer read into the record?

MR. BOIES: Yes. All of those we agree to be admitted.

THE COURT: All right. I am just going to quickly say for the record that, by agreement, the following exhibits are admitted: Plaintiffs' Trial Exhibits 11, 393, 447, 449, 466, 482, 491, 650, 15, 339, 361, 561, 733, 728, and 1212.

MR. DINTZER: That's our understanding, Your Honor.

MR. BOIES: Yes, Your Honor.

THE COURT: Very well.

(Plaintiffs' Exhibit Numbers 11, 15, 339, 361, 393, 447, 449, 466, 482, 491, 561, 650, 728, 733, 1212 were admitted into evidence.)

REDIRECT EXAMINATION

BY MR. BOIES:

Q. Good afternoon, Chairman Bernanke.
A. Good afternoon.
Q. Let me stay with Defendant's Exhibit 1611, which was the document that you had just a moment ago with Defendant's counsel.
A. Just a moment.
Q. This is your --
A. Yes.
Q. -- speech?
A. I've got it. I've got it.
Q. And on the fifth page, counsel had directed your attention to a sentence that said, "Thus, Federal Reserve loans that are collateralized by riskier securities are quite small compared with our holdings of assets with little or no credit risk."

Do you see that?
A. I accept it. I don't see it.
Q. It's the second paragraph after "Support for Specific Institutions."

A. That's right. Okay, I see it.
Q. And the AIG revolving credit facility was not collateralized by securities, correct?
A. Correct.
Q. So, you were not referring here to the AIG revolving credit facility when you talked about Federal Reserve loans that are collateralized by riskier securities.
A. I should have been referring -- it seems like I was referring to the three Maiden Lane facilities.
Q. I'd like to direct your attention to Defendant's Exhibit 1444 that counsel showed you. I think that's in his white book.
A. Yes, sir. I have it.
Q. This is an earlier draft of Plaintiffs' Trial Exhibit 64 that is in the book that we gave you, correct, sir?
A. I don't know.
Q. Would you look --
A. Which, the email or the memo?
Q. The memo. In other words, Defendant's Exhibit 1444 is an email that attaches a draft memorandum to the Board of Governors, correct?
A. Yes.
Q. Now, would you look at Plaintiffs' Trial Exhibit

64.
A. Okay. I've found it now.
Q. And am I correct that Plaintiffs' Trial Exhibit 64 is a subsequent version of the document that Defendant's counsel showed you as Defendant's Exhibit 1444?
A. I'll stipulate that.
Q. You testified to Defendant's counsel that AIG forecasts of the condition of its business and its financial needs worsened over the period of September 12, 13, 14, and 15. Do you recall that?
A. Yes, sir.
Q. Over those same days, the financial crisis was increasing in intensity, correct?
A. Some of those days were on the weekend, sir. I don't think that would be a period when the markets were operating.
Q. On the 14th, which was over the weekend, news began to leak out that Lehman Brothers was going to file for bankruptcy, correct?
A. I don't know what time that would have been, sir.
Q. But you know that it happened on Sunday because you had a meeting with the Board of Governors on Sunday at which you talked about that, right?
A. Well, we knew it was going to happen, but I don't know when it became public.

Q. But you know that it -- the news was leaking out on September 14th, on Sunday, correct, sir?
A. That seems possible, yes.
Q. And that certainly affected financial markets, correct?
A. Most financial markets aren't open on Sunday, sir.
Q. It certainly affected people's conception of what they were going to be able to do in financial markets. You're not disputing that, are you, sir?
A. No.
Q. Okay. And, of course, on the very early morning of the 15th, shortly after midnight on September 14th, Lehman Brothers did file bankruptcy, correct?
A. Yes, sir.
Q. And that was a catastrophic event for the markets, correct?
A. Well, the immediate effect was significant, but it built up over time to some extent.
Q. And, indeed, it built up over time to the effect or in the sense that immediately, on Monday, people began pulling their money out of money market funds, correct?
A. No, sir. I think that was Tuesday.
Q. Didn't that start on Monday, sir?
A. I believe the reserve -- I -- this can be checked. It broke the buck --

Q. It broke the buck on the 16th.

A. That's right, so that would mean the real run began on the 16th or afterwards.

Q. The run began, but I'm just asking you, sir, is it your testimony that people did not start pulling their money out of money market funds on the 15th?

MR. DINTZER: Objection, Your Honor. Asked and answered.

THE WITNESS: Mr. Boies, earlier on you showed me a graph from this book which showed exactly the question you're asking.

MR. BOIES: Sure.

MR. DINTZER: I will withdraw my objection.

THE COURT: All right.

MR. DINTZER: Seeing how the witness has just answered.

THE WITNESS: Do you recall where that was, sir?

BY MR. BOIES:

Q. I was just looking for my copy. I'm trying to find it. Just a second. It's a chart, and it's on the top of the page --

THE COURT: It's page 82.

MR. BOIES: Eighty-two.

THE WITNESS: Okay. I think that makes the point pretty well. The chart on page 82 shows the biggest withdrawals on the 17th and the 18th.

BY MR. BOIES:

Q. Sir, what was the withdrawal on the 15th?

A. It looks like about 40 or 50 billion dollars.

Q. Forty or 50 billion dollars?

A. That's right.

Q. And compared to what was happening the prior several days, that was a dramatic change, was it not, sir?

A. Yes, it was.

Q. Given the extent to which the crisis was getting worse, is it any -- was it any surprise to you that AIG's forecasts as to what its needs were going to be were getting worse?

A. Sir, I don't know. I think parts of the changes came about just from their review of different aspects of their obligations. I honestly don't know how much was due to market decline and how much was due to simply finding new problems.

Q. You just don't know?

A. I just don't know.

Q. Okay. Now, you said to counsel for the Defendant that very frequently the case would be that the Board of Governors would give discretion to the staff or to the chairman to approve final decisions within the scope of

what the Board had approved. Do you recall that?
A. Yes, sir.
Q. In your experience, prior to the AIG September 16th or September 22nd credit facility, had the Board of Governors ever given discretion to a Federal Reserve Bank to change the terms of a 13(3) loan?
A. I don't know.
Q. You also told counsel for the Defendant that at a FCIC hearing, a commissioner told you about various comments that the chief financial officer and chief risk officer of AIG had made. Do you recall that?
A. Yes, sir.
Q. Who was the chief financial officer and chief risk officer of AIG on September 16th, 2008?
A. I don't know.
Q. Do you know whether that person continued to be the chief financial officer of the company after September 22nd?
A. I do not.
Q. Do you know whether anybody from the Federal Reserve suggested that the chief financial officer of AIG should be changed after September 22nd, 2008?
A. Not to my knowledge.
Q. You've said that there was a concern that if AIG went into bankruptcy, foreign subs would have been

seized. Do you recall that?

A. Yes.

Q. Who told you that?

A. I don't remember, sir.

Q. Did you ever consult with any expert about foreign regulation of insurance companies?

A. We frequently had staff presentations, briefings, discussions, particularly since we had to be involved in, you know, several restructurings. So, I am sure we saw this information, but I can't give you specifics.

Q. You knew that AIG's foreign subsidiaries were very well capitalized and there were a lot of potential buyers for those subsidiaries, correct?

A. Yes, sir.

Q. Let me turn to the subject of what you referred to as broad-based 13(3) facilities, and you distinguished between broad-based facilities and facilities that were directed or targeted for a particular company, correct?

A. Yes, sir.

Q. And one of the facilities which you say was a broad-based facility was the PDCF, correct?

A. Yes.

Q. How many companies had access to the PDCF prior to September of 2008?

A. Roughly 17 or 18.

Q. Now, of those, did the five largest account for 80 percent of the PDCF borrowers?
A. I don't know.
Q. Approximately, sir.
A. I don't know, sir. I'm sorry.
Q. Did you ever look at that?
A. I don't remember.
Q. Would it surprise you that seven primary dealers accounted for 90 percent of the PDCF borrowers?
A. Well, it seems possible since they were very different in size, among other things.
Q. Two of the largest PDCF borrowers were Morgan Stanley and Goldman Sachs, correct?
A. I -- I accept your statement.
Q. And those were two companies that the weekend of September 19th, 20th, and 21st were in substantial financial trouble, despite their borrowings through the PDCF, correct?
A. They were facing problems because of problems in their funding markets, not necessarily because of contractual payments they needed to make.
Q. When you say they were facing problems in the funding markets, that is their funding markets were freezing up and they were not able to get short-term funding. Is that what you're saying?

A. Yes, sir.
Q. And was that also a problem for AIG, that they had?
A. To some extent, yes.
Q. You said to counsel for the Defendant that there were gaps in regulatory oversight, and you then went on to say that AIG was not adequately overseen. Do you recall that?
A. Yes, sir.
Q. The gaps in regulatory oversight were not, in fact, limited to AIG, correct, sir?
A. That's correct.
Q. Citi was not being adequately overseen, correct?
A. I drew a distinction between the quality of the supervision and the legal structure. Citi had supervisors, including the Federal Reserve, and we may not have done as good a job as we should have, but there were other parts of the system that really had no consolidated supervision to speak of.
Q. But despite the fact that Citi had supervision, including from the Federal Reserve, Citi got itself into a position where, without emergency government assistance, it was going to fail, correct?
A. Correct.
Q. You said to counsel for the Defendant that the

reason that the price for Bear Stearns shareholders was increased from $2 to $10 a share was because JPMorgan became concerned that the Bear Stearns shareholders would not accept a $2 price. Do you recall that?

A. Yes, sir.

Q. Now, that was because the Bear Stearns shareholders were able to make a decision whether or not to accept that $2 price or not, correct?

A. Correct.

Q. And in the term sheet that was approved by the Board of Governors at the September 16th meeting, that term sheet, as we saw, provided for a shareholder vote of AIG's shareholders, correct?

A. Yes, sir.

Q. And if there had, in fact, been a shareholder vote of AIG shareholders, AIG shareholders could have decided to accept or not accept the terms of the loan, right?

A. Yes, sir.

Q. In fact, things were changed so that such a shareholder vote didn't take place, correct?

A. I don't know if it took place or not.

Q. Did you ever try to find out?

A. I just don't recall.

Q. You told counsel for the Defendant that one of the things that you tried to do over the weekend of September

13th, 14th, 15th was to try to see if you could stretch the definition of primary dealer to include AIG. Do you recall that?

A. Yes, sir.

Q. The decision to limit the primary dealer credit facility to primary dealers had been a decision that the Federal Reserve Board of Governors had made in its discretion, correct?

A. Correct.

Q. And that was a decision that could be changed in its discretion, correct?

A. It could be, yes.

Q. Incidentally, with respect to the Board of Governors' discretion, you told counsel for the Defendant that in your understanding, the Board of Governors, as far as the law was concerned, had discretion to make or not make a loan on any basis, correct?

A. It could not make a loan unless certain conditions were satisfied, but if those conditions were satisfied, it was not sufficient to require a loan. That's right.

Q. And, indeed, it was your understanding that while it might not be a good idea from a policy standpoint, as far as the law was concerned, the Board of Governors could decide that it would consider 13(3) loans for institutions run by Democrats but not institutions run by

Republicans, correct?
A. In each case I would ask for legal advice, and the example you give, there probably would be other laws and precedents that would conflict with that idea.
Q. Well, it was your understanding that you could do that. That's what you told me at your deposition --
A. No, I said that --
MR. DINTZER: Objection, Your Honor. If counsel is going to cite his deposition, could he put it in front of the witness, please?
THE COURT: Well, let's get an answer to the question first.
MR. DINTZER: Then, Your Honor, we object to counsel referring to the deposition. He should have just -- we ask that he just ask the witness whatever the question is.
THE COURT: That's a fair objection. Maybe we can start with a different question.
MR. BOIES: Yes, Your Honor.
BY MR. BOIES:
Q. Was it ever your view that, as a matter of law, the Board of Governors could decide that it would consider 13(3) loans for institutions run by Democrats but not institutions run by Republicans?
MR. DINTZER: Objection, Your Honor. I mean, he

says "as a matter of law," so I'm going to object that it calls for a legal conclusion. If he wants his understanding, we don't object, but if he wants his understanding as a matter of law, as a legal conclusion, we do.

MR. BOIES: Your Honor, I am following up where this witness testified that his understanding was that under the law, they had discretion as to when to make a loan or not. His testimony to counsel for the Defendant just earlier today was with respect to what his understanding was of what he was permitted to do under the law. I think I'm entitled.

THE COURT: I am going to overrule the objection.

BY MR. BOIES:

Q. Let me ask you to look at page -- starting at page 270 for context. The portion I'm particularly interested in is on page 273.

A. Of the deposition?

Q. From your deposition, yes.

A. I have it.

Q. And if you go back to page 271, at line 10, we make clear that we're talking about a 13(3) law as it existed in 2008, correct?

A. Yes, sir.

Q. And you're saying that the Federal Reserve, as a matter of law, can decide who it would make the loan to and what interest rate to charge and --

MR. DINTZER: I'm sorry, Your Honor. If counsel could identify exactly where he's reading, I'm trying to follow --

MR. BOIES: Page 271, 272.

MR. DINTZER: Counselor, if I may ask --

MR. BOIES: I'll read it. I was just trying to move it along. I'll read it.

BY MR. BOIES:

Q. I'm starting at line 4.

"QUESTION: Do you think that under 13(3), subject to extrinsic limits like equal protection, the Fed has the authority to set whatever consideration it wants for loans that it makes for whatever reason?

"ANSWER: So again, I'm not a lawyer, and the 13(3) law we just stipulated has changed, so we're talking about the law during this period.

"QUESTION: Yes.

"ANSWER: The conditions of the law are very general and rely primarily on the judgment of the Board of Governors. I think, of course, in practice loans would be constrained by good policy as well as by legal authority. But the law does not stipulate any maximum interest rate or set of conditions on which the loan can be made or not made, so long as the necessary conditions in the law are satisfied, and in particular the law does not require the Fed to bail somebody out, does not require us to make a loan to somebody, and a firm which is on the verge of bankruptcy, if the Fed determines that it doesn't want to make a loan, that's completely within the authority of the Fed.

"QUESTION: Let's assume for the moment that the Fed has no obligation to make the loan, okay? Is it your testimony that if the Fed decides to make the loan and it can get somebody to sign an agreement for the loan, the Fed has the authority under 13(3) to charge whatever consideration the Fed wants for whatever reason the Board of Governors decides to act?"

And there's some colloquy in terms of whether that's a legal question, and you answer:

"ANSWER: This is a hypothetical situation" --

MR. DINTZER: Before you jump to that, Counsel, if you could also read the portion where the witness answers, "And I'm not a lawyer, but so long..."

MR. BOIES: He has said several times he's not a lawyer, so I'll stipulate.

BY MR. BOIES:

Q. The answer then says:

"ANSWER: This is a hypothetical situation, but so long as no other laws of equal protection and so on are violated, and so long as, of course, the borrower freely assents to the loan, which is an important constraint, the 13(3) loan as written does not give any specific quantitative or other restrictions on the terms of the loan."

Then there are some questions that are objected to, and at 274, line 7:

"QUESTION: I just want to focus on 13(3), and it's your judgment that -- just 13(3) -- you have the authority to do it, maybe it's bad policy, maybe there's some other law out there that prevents you, but under 13(3) you believe you are authorized to say to companies, We're going to require one level of consideration if you're run by Republicans and another level of consideration if you're run by Democrats. Is that correct?

"ANSWER: I don't think there's anything in the law, in 13(3) itself, so long as the other conditions are met and, importantly, that the borrower agrees, that prohibits treating different borrowers differently. It would be bad policy, it would be politically a terrible decision, and in particular the Federal Reserve, you know, would be better off not making a loan if it couldn't find terms that satisfied its policy objectives, but the plain -- I mean, again, I am not a lawyer, but reading the plain language of 13(3), it gives considerable discretion to the Federal Reserve whether to make a loan or not, and if it does, so long as the necessary conditions are satisfied, and if it does make a loan, to establish the terms."

Now, that's the testimony you gave at the time. Is that correct?

MR. DINTZER: Your Honor, I'm going to object. In answer -- the question that I believe Mr. Boies is trying to impeach, this is the answer that the witness just gave according to the testimony here, "In each case I would ask for legal advice, and the example you give, there probably would be other laws and precedents that would conflict with the idea." There is nothing inconsistent with what the witness said and what counsel -- I don't disagree with what counsel just read. That doesn't impeach anything that the witness said, especially given the number of times that he said that I'm not a lawyer.

THE COURT: Well, let's have the next question, and maybe this will be clearer and better tied together.

MR. DINTZER: Thank you, Your Honor.

BY MR. BOIES:

Q. Is it your understanding, sir -- and I'm not asking you for a legal opinion, I'm just asking for your understanding as the former Chairman of the Federal Reserve. Does 13(3) itself, leaving aside questions of equal protection and other things that may impinge on discretion, but does 13(3) itself provide you with the ability to say, "We're going to make loans to Democrats but not Republicans," or vice versa?

A. Well, it's a silly example, because it would run afoul of so many other laws, but 13(3), as I understand it, does give wide discretion to the lender, to the Fed.

Q. Does it give you that wide discretion, as you understand it?

A. It would run afoul of other laws and precedents.

Q. I'm just asking about your understanding of 13(3).

A. I don't know.

Q. Did you ever try to find out?

A. About Democrats and Republicans?

Q. Well, I hate to -- I hate to put you on the spot as far as that's concerned, but did you ever try to find out whether, as a legal matter -- realizing that you're not a lawyer -- whether the discretion that you say you think you had under 13(3) was broad enough that you could make that kind of decision?

A. It was irrelevant, because whenever there was a specific 13(3) question on the table, we had legal advice.

Q. Well, sir, you didn't have any written legal advice here, did you?
A. I don't know. I don't think so.
Q. And by "here," I mean with respect to the AIG loan. You know that, right?
A. Yes, sir.
Q. Let me go back to my question, because while you may think it's irrelevant, I want to get an answer to it. My question is that realizing that you're not a lawyer, I'm just asking for what your understanding was as Chairman of the Federal Reserve, when you were, was it your understanding that just looking at 13(3), you had under that statute essentially total discretion as to whom to make a loan and for what purpose and under what terms?
MR. DINTZER: Objection, Your Honor. It calls for a legal conclusion and the witness has explained the breadth of his nonlegal understanding of that.
THE COURT: Overruled. I'll take his answer, but this will probably be the last time.
THE WITNESS: Are you asking about what my understanding was in 2008, at this time? I don't think I had contemplated the kind of examples you have been giving. All I knew was that our authority was broad and that I would rely on counsel in individual cases to

explain precedence and other restrictions.

BY MR. BOIES:

Q. When you relied on counsel, did you generally believe that it was important to have counsel's advice in writing?

A. It was not always possible given the constraints of time, but we certainly relied on the opinion of the general counsel and his deputies.

Q. And did you believe that in matters of importance, both so that you could understand exactly what was being told you and so that you would later have a record of it, that you wanted, wherever possible, to have your legal advice in writing?

A. Yes, where possible.

Q. At any point in time, did you ask for any legal advice in writing with respect to the issues related to the AIG credit facility?

A. Not that I recall.

Q. Let me turn to another subject.

You said that it was important not to have too many restrictions or too high an interest rate or other terms on the PDCF because you very much wanted to make those loans and there would be a stigma attached if those loans carried with it too high a cost, correct?

A. Yes, sir.

Q. By the time that you got to February -- I'm sorry, not February -- September 16th, there was no stigma attached to borrowing from the Federal Reserve by the primary dealers, correct?

A. I don't know if that's the case.

Q. Certainly all the primary dealers wanted to borrow or all the significant ones wanted to borrow from the PDCF, correct?

A. At the interest rate that was posted, yes, sir.

Q. And, indeed, all of the major primary dealers needed to borrow from the PDCF in the middle of September, correct?

A. That's plausible, but I don't have direct evidence.

Q. Well, you certainly had direct evidence that Morgan Stanley and Goldman Sachs needed to borrow from the PDCF, correct?

A. That was the suggestion of some of the people observing the situation, yes.

Q. And that was your understanding at the time, correct, sir?

A. Well, again, it's hard to --

Q. It wasn't just some people suggesting this in the air.

A. It's hard to distinguish between individual firms' needs and the fact that the market in general is in stress. It's important to keep the market in general supplied with liquidity so that it calms down.

Q. Yes. Without in any sense disagreeing with that general proposition, my question is, in the middle of September of 2008, you knew that Morgan Stanley and Goldman Sachs needed to borrow from the PDCF, correct?

A. I didn't have explicit information to that effect.

Q. You told counsel for the Defendant that the Federal Reserve had turned down quite a few requests for 13(3) loans. Do you recall that?

A. Yes, sir.

Q. What requests for 13(3) loans did you turn down from financial firms in the fall of 2008?

A. We turned down -- I don't necessarily want to give names in open court. Do I have to do that? We turned down a medium-sized mortgage company, family-run mortgage company that financed jumbo, large-scale -- large size mortgages and failed because it was unable to obtain financing.

Q. That's a company that's now failed, correct?

A. I believe so, yes.

Q. In that case, I don't think any harm can be caused by --

A. Well, it's still a family --

Q. I know, the name, but the company.
A. Okay. The Thornburg Mortgage Company.
Q. Any other examples?
A. I'm sure there are many, but I don't have names to give you.
Q. And that's because you don't recall any names. Is that correct?
A. Most of the requests came to staff rather than to me personally. This was one I happened to get engaged in.
Q. But as you sit here, you don't know any other names, other than Thornburg?
A. That's right.
Q. You also distinguished between what you called broad-based lending and more targeted lending based on the Bagehot Principles. Do you recall that?
A. Targeted lending of -- to individual markets or to firms?
Q. When you refer to targeted lending, are you referring to lending to particular markets or particular firms or both?
A. I'm not sure. It depends. I think I might have used it both ways. I don't -- do you have an example?
Q. No. I'm just trying to ask you, based on your testimony to the Defendant's counsel, you were --

A. We had lending -- broad-based lending to firms, like the primary dealer credit facility. We had broad-based lending to markets, like the AMLF, the TALF, and the CPFF. And then we had firm-specific lending, like Bear Stearns and AIG. Those were the three categories.
Q. When you referred to "targeted" emergency lending, what were you referring to?
A. I'd have to see the context. I'm sorry. I'm not sure.
Q. Is that a term --
A. It's not a formal term. It's not a term that has specific meaning in economics.
Q. Is that a term that you use?
A. Possibly, occasionally, but it wasn't one I used frequently.
Q. Okay. With respect to the lending to individual firms -- is that a fair way to describe it?
A. Yes, sir. Yes, sir.
Q. -- was that lending consistent with the Bagehot approach?
A. Partially.
Q. That was partially consistent?
A. Yes.
Q. And was the broad-based lending that you described

consistent with the Bagehot approach?

A. Yes.

Q. Both the broad-based lending that you described and the individual firm lending, as you used that term, that you described, were pursuant to 13(3), correct?

A. Correct.

Q. And Section 13(3) does not make a distinction between what you refer to as multifirm or broad-based facilities and what you refer to as single-firm bailouts, correct?

A. Correct.

Q. And when you have described single-firm bailouts, including AIG, you have described those as being consistent with the Bagehot approach, correct?

A. Partially consistent.

Q. Partially consistent.

Let me ask you to look at Plaintiffs' Trial Exhibit 650, which is in your book.

A. Which book, sir?

Q. It's the book we gave you. It's got a light blue cover.

A. Okay.

Q. And I believe this document is already in evidence.

A. I have it, sir.

Q. And let me ask you to look at page 15 of this document.

A. Okay.

Q. Do you see at the bottom, that last paragraph, where it says, "The Federal Reserve's responses to the failure or near failure of a number of systemically critical firms reflected the best of bad options, given the absence of a legal framework for winding down such firms in an orderly way in the midst of a crisis -- a framework that we now have. However, those actions were, again, consistent with the Bagehot approach of lending against collateral to illiquid but solvent firms."

Do you see that?

A. Yes, sir.

Q. You then go on to say, "The acquisition of Bear Stearns by JPMorgan Chase was facilitated by a Federal Reserve loan against a designated set of assets, and the provision of liquidity to AIG was collateralized by the assets of the largest insurance company in the United States. In both cases, the Federal Reserve determined that the loans were adequately secured, and in both cases the Federal Reserve has either been repaid with interest or holds assets whose assessed values comfortably cover remaining loans."

Do you see that?

A. Yes, sir.

Q. And when you said that the loans to individual companies, including AIG, were, as you put it, "consistent with the Bagehot approach of lending against collateral to illiquid but solvent firms," that was something you believed at the time, correct, sir?

A. What I meant by that was it was consistent in that particular sense, but there's more to the Bagehot Principle than just lending against collateral. For example, there's the issue of what the collateral is, as I discussed earlier.

Q. Yes. And did you at any point in this discussion, that is represented by your remarks that have been marked as Plaintiffs' Trial Exhibit 650, suggest that the collateral provided by AIG was not consistent with the Bagehot approach?

A. I did not say that, no.

Q. In fact, what you say here is that the lending to AIG was consistent with the Bagehot approach of lending against collateral to illiquid but solvent firms, correct?

A. In that respect, yes, sir.

Q. And referring to your discussion of collateral, you talked with defense counsel about something that Mr. Bagehot had said about collateral being good bank collateral. Do you recall that?

A. Bank securities.

Q. Bank securities?

A. Yes, sir.

Q. There was a lot of 13(3) lending that you did that was not collateralized by bank securities, correct?

A. They were all collateralized by marketable securities.

Q. Well, you say marketable securities. First of all, I will come to that, but what I asked you about was you told counsel for the Defendant that Mr. Bagehot wanted to have collateral that was bank securities. Do you remember saying that?

A. Yes.

Q. And a lot of the collateral that the Federal Reserve lent against under 13(3) in 2008 and 2009 was not bank securities, correct?

A. Correct.

Q. And now let me come to the question of whether the collateral was marketable securities or not. In September of 2008, the collateral that would be accepted for, for example, the PDCF included collateral that was represented by mortgage-backed securities and asset-backed securities, correct?

A. Yes, sir.

Q. And those were securities for which there was no effective market at that time, correct, sir?
A. There was some trading, yes.
Q. There wasn't very much trading, was there, sir?
A. No.
Q. Okay. There wasn't enough trading for you to believe that you could think of that as a functioning market, correct?
A. I'll accept that.
Q. Okay. Now, in addition, some of the collateral that was accepted with respect to the PDCF was real estate interests, correct?
A. Tradable interests.
Q. Tradable interests but not interests for which there was what you would think of as a functioning market, correct?
A. Correct. Mr. Bagehot's view was that you should look at things that would be tradable at normal times.
Q. Well, in normal times, the securities that were represented by AIG's ownership of the insurance subs would have been tradable, correct, sir?
A. Not in a market. Not in a rapidly clearing market where you could borrow against it, no.
Q. You just said a rapidly clearing market. The real estate interests weren't going to be in a rapidly

clearing market either, right, sir?
A. They are financial securities that can be traded, bought, and sold.
Q. They can be traded, bought, and sold, and the stock in the AIG subsidiaries could be traded, bought, and sold. In fact, you know that some of the subsidiaries were not 100 percent owned, correct?
A. I don't know.
Q. Well, you know that some of the AIG subsidiaries at various times had been partially owned and there had actually been other owners of that, that they had not been 100 percent owned, correct?
A. I'll take your word for it.
Q. Well, don't take my word for it. I'm just trying to find out what you know.
A. I don't -- I wasn't aware of that.
Q. Did you ever -- did you ever try to find out how marketable these insurance subsidiaries were?
A. I assumed that they weren't marketable enough to lend against, because the -- that's -- that's not the collateral that was offered to the Federal Reserve.
Q. The insurance subsidiaries was not among the collateral offered the Federal Reserve?
A. No. It was -- the insurance subsidiaries as businesses, yes, but not share certificates, as far as I

know. In any case, this is --

Q. Well, wait a minute. Wait a minute. Wait a minute. What happened was when you made the loan, you sent people over to AIG to get the share certificates and carry them back and put them in your vault, right? That's how you secured the loans.

A. The problem is the share certificates are not really secured by anything. They're just the value of the company. If the company fails, they're not -- the share -- the securities or the equity securities are not of any value. They provide no independent protection.

Q. The stock that you got, the securities that you got, that you went over to the offices and picked up and put in your vault, you did that because you thought those securities had a lot of value. Fair?

MR. DINTZER: Objection, Your Honor. He's talking stocks and he's talking securities, and if we could just ask him to clarify his question. The stock that you got, the securities that you got, that you went over -- I just want to make sure that the witness knows if he's asking about stocks or if he's asking about securities.

THE COURT: Well, sir, do you understand the question?

THE WITNESS: No.

THE COURT: No? Okay. You're the one that

matters the most.
BY MR. BOIES:
Q. There were securities that were -- that was stock in AIG's insurance subsidiaries that the Federal Reserve took as collateral for the AIG loan, correct?
A. I -- I assume so.
Q. But the answer is you don't know that?
A. I don't know that, no.
Q. Okay. Did you know that before the money was actually transferred to AIG, even on September 16th, the Federal Reserve Bank of New York sent people over to get these securities that represented stock, shares of stock in the AIG subsidiaries and took them over and put them in the Federal Reserve vault?
A. I don't know that, no.
Q. Did you understand that at least the Federal Reserve Bank of New York thought that the shares of stock in the AIG insurance subsidiaries were valuable?
A. Yes, they were valuable, but they weren't marketable and tradable independent of AIG's value.
Q. When you say they weren't marketable or tradable, they were marketable or tradable to the extent that somebody was prepared to buy them, correct?
A. Were they traded on an exchange at any time?
Q. The answer is if they were 100 percent owned, they

weren't. If they were partially owned, they might have been. But the question is, is it your testimony that the asset-backed securities that you took as collateral were all traded on an exchange?

A. They were traded in markets in normal times.

Q. That's not the question. You said that these shares of AIG subsidiary stocks were not traded on an exchange, and I'm asking you if all these asset-backed securities and mortgage-backed securities that you were referring to as collateral, were they all traded on an exchange?

A. No.

THE COURT: Mr. Boies, shall we take an afternoon break?

MR. BOIES: Yes, Your Honor.

MR. DINTZER: Your Honor, before we do, the witness is scheduled to leave at 3:30. If we could get a proffer, if counsel's about to finish up, perhaps we could wrap up the witness today. If not -- and then we would ask the Court's indulgence in extending the break time. If not, then we understand, but we might as well get that.

MR. BOIES: I will try to wrap it up, Your Honor.

THE COURT: All right.

MR. BOIES: Because I don't want him to have to come back unnecessarily.

THE COURT: All right. Let's go ahead.

MR. BOIES: May I have just a moment? There were two documents he was going to...

(Counsel conferring.)

MR. BOIES: Okay. Your Honor, we offer Defendant's 680 and Defendant's 2179.

THE COURT: Defendant's 680 and 2179?

MR. BOIES: Yes.

THE COURT: All right.

THE WITNESS: Is that in the big notebook?

MR. BOIES: Plaintiffs' Trial Exhibits. I apologize, Plaintiffs' Trial Exhibits.

THE COURT: That's what I thought.

MR. BOIES: Plaintiffs' Trial Exhibits 680 and 2179.

THE COURT: You don't have to look at them, sir. I think they are just offering them.

Without objection?

MR. DINTZER: Those two without objection.

THE COURT: Plaintiffs' Trial Exhibits 680 and 2179 are admitted.

(Plaintiffs' Exhibit Number 680 was admitted into evidence.)

(Plaintiffs' Exhibit Number 2179 was admitted into evidence.)

BY MR. BOIES:

Q. One last subject. You said that you believed that there was a risk with respect to the AIG loan. Do you recall that?

A. Yes, sir.

Q. And there was risk with respect to all of the 13(3) loans that were made by the Federal Reserve during 2008 and 2009, correct?

A. Some risk, yes.

Q. And with respect to the AIG loan, you said on a number of occasions that that loan was fully secured.

A. Yes, sir.

Q. Let me ask you to look at Plaintiffs' Trial Exhibit 599.

Actually, I don't have to have you look at it. I'm told that's already in evidence.

MR. SCARLATO: We have it.

MR. BOIES: Do you have it?

MR. SCARLATO: It's in evidence.

MR. BOIES: In that case, Your Honor, I pass the witness.

THE COURT: All right.

Anything further, Mr. Dintzer?

MR. DINTZER: Yes, Your Honor, but we will end at

3:30 or before then. And we thank counsel's effort for assisting us in getting the witness completed today.

RECROSS EXAMINATION

BY MR. DINTZER:

Q. Sir, I'm going to ask you to turn to DX 664 in your white binder, please, and tell me if you recognize this document.

A. I'm sorry. I'm having some difficulty.

Q. No, I understand, sir.

A. Oh, here we go. I have it.

Q. Just look at the front page first.

A. Yes. I don't recall it specifically.

Q. Do you have an understanding of what it is?

A. Yes. It's a vote on the restructuring of the loan to AIG.

Q. What is the notation voting item? What is notation voting?

A. It means it's equivalent to signing your name on a piece of paper that I approve, as opposed to raising your hand in an actual meeting.

Q. And are you listed as having voted for this action?

A. Yes, I am.

Q. And is there a memorandum attached?

A. I see it, yes.

Q. And would you have read that before engaging in the notational voting?

A. Yes, I would have.

MR. DINTZER: Your Honor, we move for the admission of DX 664.

MR. BOIES: No objection, Your Honor. I think it's outside the scope, but I don't have any objection.

MR. DINTZER: I can -- I'll show that it's within the scope pretty quick, Your Honor.

THE COURT: That's okay. Defendant's Exhibit 664 is admitted.

(Defendant's Exhibit Number 664 was admitted into evidence.)

BY MR. DINTZER:

Q. And generally, do you understand that this is the memo that addresses ML III?

A. ML II and ML III, yes, sir.

Q. ML II and ML III.

And if you go to page 2 of the document -- it's the third physical page but numbered page 2 --

A. Yes.

Q. -- it says, "It is anticipated that these actions, if approved, and Treasury's investment will be publicly announced before the U.S. markets open on Monday, November 10th, 2008, contemporaneous with AIG's release

of its earnings for the third quarter of 2008."
Do you see that?
A. Yes, sir.
Q. And then let's go, if you would, to page 5, numbered page 5, and just generally, ML II and ML III were designed to avoid AIG's bankruptcy. Is that true?
MR. BOIES: Objection, Your Honor.
MR. DINTZER: That's fair. That's fair. I withdraw it. Let me try it this way.
BY MR. DINTZER:
Q. If you go to page 5 and you go to the last paragraph before the heading --
A. Yes.
Q. -- and you go to the last sentence of that paragraph, and it says, "A bankruptcy by AIG also likely would significantly reduce the value of AIG's assets, including the stock of its regulated insurance subsidiaries, which currently serve as collateral for the September Facility."
Do you see that?
A. Yes, I do.
Q. Okay. So, Plaintiffs' counsel asked you a question, did you ever see something that suggested that AIG -- that if AIG went bankrupt, it would affect the value of the insurance subs that served as collateral for

the loan.

A. Yes, we --

MR. BOIES: Objection, Your Honor. I don't think that that was the question I asked. I know what he's talking about, but if he can ask the question without characterizing my question, I think that would be preferable.

MR. DINTZER: I will withdraw the question, Your Honor.

THE COURT: All right.

BY MR. DINTZER:

Q. Plaintiffs' counsel asked you generally about how the insurance subsidiaries might be affected in bankruptcy, along those lines. Do you remember that?

A. Yes, I do.

Q. Did you see something in writing regarding that?

A. Just a general statement about the effect of bankruptcy on the value of the assets. It is here obviously, but in other -- I saw it in other contexts as well.

Q. And if you go to page 8 of this document at the bottom, it says, "In addition, these modifications, including, in particular, the term extension, should improve the likelihood that AIG will be able to repay advances under this facility by providing AIG additional time to execute its large and global divestiture program, which is the primary source of funding for repayment of the facility."

Do you see that?

A. Yes, sir.

Q. Did this -- was this consistent with your understanding of how liquid or illiquid the -- AIG's insurance subsidiary assets were?

A. Yes. We understood it would take some years to sell off the subsidiaries in order to repay the loan.

Q. Okay. No further questions on that document, sir.

If you go to PT -- let me see -- PTX -- well, let's scratch that.

We just stipulated for the admission of PTX 680.

A. I have that.

Q. If you could go to page 20 of PTX 680. Just so that the Court understands, this is "The Financial Crisis: Five Years Later." Page 20 of the exhibit.

A. Okay, one moment. I only have up to page 17. Oh, page -- yeah, 17.

Q. Okay, no problem. Let's do this. Okay, sir. So, this is page 20.

A. Okay.

Q. And at the top it shows, "AIG -- the world's largest insurer -- was on the brink of collapse." Do you see that?

A. Yes. What is the document that we're looking at?

Q. This is "The Financial Crisis: Five Years Later."

A. Thank you.

Q. And one of the items that it says on PTX 680, page 20, "Observers predicted that any federal bailout of AIG would have resulted in substantial losses to the American taxpayers from $36-$45 billion. CBO at one point estimated that the AIG bailout would cost taxpayers $36 billion, while other estimates showed losses north of $45 billion."

Do you see that?

A. Yes, sir.

Q. Was it your understanding that there was a recognition in the world, in the marketplace, in the -- in the Congress, when you were testifying to them, that -- that there was a risk in the loan and a risk of failure -- and a risk of loss?

MR. BOIES: Objection, Your Honor, unless it's tethered to some point in time and to some facility.

THE COURT: That's fair.

Can you pin this down, Mr. Dintzer?

MR. DINTZER: Sure.

BY MR. DINTZER:

Q. Did you have an understanding, sir, when you were testifying to Congress, the testimony that Plaintiffs showed you, that there was an understanding or a concern that -- that the AIG bailout of -- that the September -- that the September loan, the September 2008 $85 billion loan to AIG, was a risky loan or involved risk?

A. That was the strong presumption of most Congresspeople and certainly much of the American public.

Q. Plaintiffs' counsel at one point said -- used the term that -- that the term sheet was "approved" by the Board of Governors on September 16th. I just want to make sure that I'm clear. Did the Board of Governors approve a term sheet?

A. No, sir. It approved a resolution, which included reference to the term sheet.

Q. You've used the term "bank securities" in regard -- in reference to Bagehot, and I don't know if you had a chance to explain that. What did Mr. Bagehot mean by "bank securities"?

A. Well, in the context of this time, bank securities were financial securities, and he talked about securities that could be pledged, in other words, used as collateral or converted, marketable, during normal times.

So, the bank securities would have been primary -- the primary group of securities. I take it that the analogy in the modern economy would be marketable financial securities.

Q. And Plaintiffs' counsel asked you could you name anybody who knocked on the 13(3) door and was turned away, and you identified one, Thornburg. Is that right?

A. Yes, sir.

Q. And then he asked you could you remember any others, and I am only going to reference it because it came up earlier. Did Lehman seek assistance and was it turned away?

A. Surely. Yes, Lehman did.

Q. Okay. And what happened to Lehman?

A. It collapsed.

Q. Sir, you said that you relied on your counsel for advice, and was that the -- I mean, whether it was written or verbal, is that the standard procedure for someone in your position?

A. Yes, sir. I'm not a lawyer. I rely heavily on my legal advice.

Q. And Scott Alvarez was the general counsel?

A. Yes, he was.

MR. DINTZER: Just one moment, Your Honor. I've got a minute.

(Counsel conferring.)

MR. DINTZER: We have no further questions, Your Honor.

THE COURT: All right.

Dr. Bernanke, thank you very much for your testimony in this matter. You are excused.

THE WITNESS: Thank you so much, sir.

THE COURT: Yes. Let's take an afternoon break. We will reconvene at 3:45.

(Court in recess.)

THE COURT: Thanks very much. Please be seated.

Good afternoon, Mr. LaTorre.

THE WITNESS: Good afternoon, Your Honor.

THE COURT: Do you understand that you are still under oath in these proceedings?

THE WITNESS: Yes, sir, I do.

THE COURT: All right. Let's go ahead.

Whereupon --

ALEJANDRO LATORRE

a witness, called for examination, having previously been duly sworn, was examined and testified further as follows:

MR. SCARLATO: Thank you, Your Honor.

CROSS EXAMINATION (cont.)

BY MR. SCARLATO:

Q. Thank you for coming back, Mr. LaTorre. Appreciate you coming back today.

Just to reorient ourselves again, because we had a little break in the action, do you recall at the end of yesterday, we were talking about the work that you and your team did at the New York Fed on the weekend of September 13th and 14th, 2008?

A. Yes, I do.

Q. Yes?

A. Yes.

Q. Just to give a little context, what do you recall as sort of the general scene at the Fed that weekend?

A. Well, it was a sort of very harried environment. It was clear there was a lot of urgency behind the work that we were doing. Many of the days and evenings seemed to blur over the course of several hours, and we were -- despite that, we were focused on achieving that was asked of us.

Q. And by "we," you mean your team?

A. That's correct.

Q. Were there other teams at the Fed working on other issues?

A. I was primarily dedicated on -- focusing on AIG, so I don't -- I don't know what other teams were working on.

Q. Were there people that were sleeping at the New York Fed over that weekend?

A. Yes, there were.

Q. Did you?
A. I did not.
Q. Okay. And why were people sleeping at the New York Fed that weekend?
A. I imagine because it was too far away for them to travel to their homes and return in time for a lot of the key discussions. Events were moving very quickly over the course of that weekend.
Q. Okay. Now, I'd like to ask a harder question. So, yesterday, before we concluded, we were talking about -- you were testifying about the New York Fed having a lens into the financial systems. Do you recall that testimony?
A. Yes.
Q. Okay. And that lens was -- what was that lens?
A. So, our objective, again, was to understand whether or not AIG's failure due to its size or to its interconnectivity with the economy would precipitate a collapse of the economy. So, given our experience in supervising financial institutions, we felt that it would be valuable to answer that question through the lens of understanding what AIG's exposures were to those financial institutions.
Q. And the way you viewed it through that lens was AIG submitted information to you and your team?

A. That is correct.
Q. Okay. And so -- and remind the Court what this information was.
A. This was counterparty exposure information; in other words, it described the lending or credit relationships, largest credit relationships that AIG had with other counterparties.
Q. Okay, now for the hard question. So, can you explain to the Court whether understanding a counterparty's exposure to one firm, like in this instance AIG, is equivalent to understanding the loss that that counterparty would experience if AIG had failed?
A. It is not necessarily equivalent. You would need an understanding of whether or not the counterparty took any action to offset any potential losses arising from its exposures to AIG.
Q. To be clear, that means due to other transactions? Is that --
A. That's correct. So, essentially, those counterparties may have insulated themselves through transactions with other counterparties away from AIG.
Q. And do you recall receiving any information of that sort over that weekend?
A. I did not. I didn't have any insight into what

the counterparty exposures were beyond those with AIG.
Q. Okay. And so was AIG's connections with these counterparties the only issues your team was looking at over the course of the weekend of the 13th and 14th?
A. No.
Q. Can you describe generally what else you were looking at?
A. Essentially, we were looking at liquidity projections provided by AIG in order to understand what the magnitude of the liquidity losses could be. We also looked at public information to better understand AIG's corporate structure.
Q. And in terms of the impact of an AIG bankruptcy, you said one piece of the lens was the counterparty exposure. What else, in that sense, did your team look at?
A. It looked at the public information relating to AIG.
Q. But about what? To assess what?
A. To understand whether or not the subsidiaries of AIG could, in fact, serve as sources of strength to the parent.
Q. That's okay, we'll come back to that.
So, let's turn to the specific work your team was doing, and I think for context it might be helpful if you

turn to the white binder, which is the binder we gave you.

A. I have three binders.

Q. Right. One's white.

A. Oh, I see. Yep.

Q. If you could turn to Defendant's Exhibit 303 in that binder.

A. I see the exhibit.

Q. Thank you.

Do you recognize that you are -- this was an email you were sent from Patricia Mosser to you, on Sunday, September 14th, 2008?

A. That is correct.

Q. And this was in the course of the work that you did over that weekend?

A. That is correct.

MR. SCARLATO: Your Honor, we would like to offer DX 303 into evidence.

MR. BOIES: This is just a single email?

MR. SCARLATO: Right.

MR. BOIES: No objection, Your Honor.

THE COURT: Defendant's Exhibit 303 is admitted.

(Defendant's Exhibit Number 303 was admitted into evidence.)

MR. SCARLATO: Thank you, Your Honor.

BY MR. SCARLATO:
Q. So, Mr. LaTorre, looking at the top, Ms. Mosser states, "Tim wants a note on pros and cons of lending to them by early afternoon."
Is "Tim" Tim Geithner?
A. That's correct.
Q. And what is your understanding of the pros and cons of lending information that Mr. Geithner wanted to get?
A. My understanding was that then-President Geithner wanted to understand what the impact would be, particularly on the financial system, of lending to AIG.
Q. Okay. And so at that time, what authority did you or your team have over the actual decision as to whether the Fed would lend?
A. Me and my team had no authority over the decision. Our role was simply to -- well, my role was simply to assemble a group of experts and ensure that his questions were answered -- this question was answered in a way that spans the views of that group.
Q. And by "him," you mean Mr. Geithner?
A. That is correct.
Q. President Geithner?
A. Yes.
Q. How did you put this memo together, this pros and

cons memorandum?
A. We basically tried to use some of the information that I described earlier, and we debated and deliberated internally, among the team, what were the most relevant or salient issues that we wanted to bring to the attention of then-President Geithner.
The document was crafted in a way that it didn't have a recommendation, and it was very neutral in its presentation to allow the policymakers, particularly then-President Geithner, to make an informed decision.
Q. And so at that point, was there any decision that was made as to whether to lend to AIG?
A. I was not aware of any decision being made at that point, that point in time.
Q. Okay. If you can now turn to Defendant's Exhibit 307, which, Your Honor, is already in evidence.
A. I see the exhibit.
Q. Is this the memorandum of pros and cons of lending that you were just talking about?
A. Yes. That is correct.
Q. And I see that in the "To" line, Secretary -- then-President Geithner is on that email?
A. Yes.
Q. Now, in fact, I believe there's three attachments to your -- to your email on Sunday, September 14th. I'll

just ask you briefly, it's noted in the cover email of DX 307, number 2, and it says, "A spreadsheet provided by AIG detailing the firms with the largest exposures to AIG."

Can you explain what -- the purpose of sending Mr. Geithner that information was?

A. The purpose of sending that information is for him to understand what the systemic consequences would be of AIG's failure by understanding what AIG's credit trading relationships were with other counterparties.

Q. And it was provided by AIG. Is that consistent with your recollection?

A. That is.

Q. Okay. If you could now turn to the last attachment to DX 307. It's entitled "Pros and Cons of Lending to AIG." It's got a Bates number in the bottom right ending 6652.

A. I do see it.

Q. Okay, great. Is this the memorandum that you were just testifying about?

A. Yes.

Q. Okay. And is it fair to say that this, as you said, objectively lays out the pros and the cons of lending, as you testified?

A. Yes.

Q. Okay. And looking at, just briefly, some of the pros identified in DX 307, is it fair to say that -- I believe under pro number 2 and 3, that's an indication as to what your group's thinking was on how it -- averting an AIG failure would affect the economy outside of the core financial system?

A. Yes, that is correct.

Q. Can you just give the Court an understanding of what that information is intending to convey?

A. The second bullet, number 2, where it says, "Lending could provide 'bridge finance' to implement strategic plan," and the subsequent goals thereafter essentially highlight that lending would enable AIG to find a longer term solution by essentially buying time to work through some of the issues that were the source of the immediate liquidity pressures.

The -- number 3 refers to the potential spillover effects that could be avoided by lending to AIG. In other words, if, for whatever reason, a loan were not extended to AIG and the company ultimately failed, particularly in funding markets, such as commercial paper, then the market could perhaps be concerned about other institutions -- in this case we illustrated GE Finance -- with similar kinds of participation in that market that could be vulnerable to failure as well.

Q. You mean even though they didn't have direct exposure to AIG?

A. That's correct. Essentially what we're pointing out here is there could be a loss of confidence in companies beyond AIG, even though they're not directly implicated.

Q. Okay. And just briefly to discuss two of the cons, number 1, can you tell the Court what your understanding of con number 1 states? "Could diminish incentive to pursue private sector solutions and/or solutions proposed by insurance regulators..."

A. So, what number 1 explains is that to the extent that there were private sector solutions at work during this time period, then knowledge of potential intervention by the Federal Reserve Bank of New York could stymie those discussions, could create an incentive for those private sector solutions to terminate those discussions, and clearly that would have been a far more desirable outcome than extending a loan.

Q. And if you would turn now to number 3 under "Cons," it says, "Lending could precipitate failure and the exit strategy would not be clear. Increases moral hazard as other insurance companies seek protection."

Do you see that?

A. I do see that.

Q. Can you explain what is meant by "moral hazard"?
A. Moral hazard is a risk that arises when a company takes on more risks than it prudently should. Because it understands that it will be guaranteed by some other entity, in this case the New York Fed, it would be guaranteed by another entity in the event of losses.
Q. And so that's a policy concern your team had at the time?
A. That's a policy concern because it could create the incentive for other market participants who may not have been prudent in managing their risks to continue to be imprudent and to rely on essentially a backstop.
Q. Okay. And finally, if you look at the last con, number 7, it says, "Without punitive terms, lending could reward poor risk management practices cited by rating agencies (e.g. S&P)."
S&P is a rating agency?
A. That is correct.
Q. And so you're stating there or your team is stating there that the rating agencies thought AIG had poor risk management practices?
A. That is correct.
Q. Okay. And what is meant by "punitive terms" in that section there?
A. Well, I think that what is meant by "punitive

terms" is essentially -- or let me take a step back.

In the discussion, one of the concerns that was raised was not rewarding poor risk management practices, and several of us reached the conclusion that in light of what we were told at the Friday meeting that I explained in yesterday's testimony, that a firm that had allowed itself to be so close to failure and had large concentrations of exposures that required such significant collateral postings is one that had imprudent or poor risk management practices.

So, in light of that view that was expressed by several members of the group, the concern was that intervening -- if we didn't intervene in an appropriate way, we would potentially be rewarding those practices and, again, reinforcing the moral hazard concerns that I discussed earlier.

Q. And is that the meeting -- these discussions you just testified about, is that the meetings that Mr. Boies asked you about yesterday discussing punitive terms?

A. That is correct.

Q. And did you discuss the substance of this memo with then-President Geithner?

A. I believe we did.

Q. And was this after you sent it to him at -- I think the time is 3:48 p.m. on Sunday?

A. Yes, yes.
Q. Okay. Well, let me ask you more about your interactions with then-President Geithner. When was the first time you recall seeing him that weekend?
A. The first time I recall seeing him that weekend was in a meeting that we had to discuss one of the documents. Again, my -- my ability to differentiate which meetings happened when and which documents we discussed is not perfect, but I do believe that we did talk about, if not this pros and cons document, then a subsequent iteration of the same document.
Q. Okay. And before that, do you recall seeing Mr. -- then-President Geithner in the hallway at one point?
A. I -- I do recall seeing him, but, again, I can't tell you exactly when or where. There were a lot of -- there was a lot of movement.
Q. It was over the course of that weekend, though?
A. Yes.
Q. Okay. And do you recall what he told you at that time?
A. Well, I do recall that one of the concerns that he conveyed to us was that in the course of our work and in the course of our discussion, we should not do anything to signal to AIG that we would, in fact, consider making

a loan, that the New York Fed would consider making a loan.

Q. And did he tell you why he wanted you to tell AIG that?

A. He -- he didn't explain why he was concerned about creating that signal, about us creating that signal through our engagement with them, but he made it clear that that was a concern.

Q. Okay. And do you recall what consideration President Geithner or any other of the senior management at the Fed gave to the analysis reflected in DX 307?

A. I don't know what weight they gave this analysis in relation to all the other pieces of information that they were acquiring over the course of that weekend.

Q. Okay. Well, after drafting this pros and cons memo, what did you do next?

A. I believe we were asked to explore a broader question as to whether or not AIG's failure would create systemic risk for the economy.

Q. And why is that a broader question?

A. Well, that is a broader question in the sense that it -- the answer to that question would precede the -- the discussion I explained earlier about the pros and cons of lending to AIG.

Q. And just so we're clear on the analysis, why is that, just so we understand?

A. Because, arguably, if we made a determination that AIG's failure could lead to a broader economic collapse, then that would argue for intervening -- for the New York Fed extending assistance rather than not.

Q. Okay. You mentioned the word "systemic." What does "systemic" mean in your view?

A. There are many definitions of systemic risk. My understanding or my definition I like to use is it occurs when a company is so large or so interconnected with the rest of the economy that its failure could precipitate a broader crisis, such as a very protracted recession, and essentially affect other industries, average Americans, et cetera.

Q. Okay. If you can turn now to DX 398 in the same binder. Your Honor, this is also in evidence. Tell me when you have it in front of you.

A. I have the exhibit in front of me.

Q. It's an email and an attachment, and the attachment is "Systemic Impact of AIG Bankruptcy." Is this the memo you were just testifying about?

A. Yes. This is the second memo that we crafted for then-President Geithner.

Q. Okay. And if you can turn to the -- back to the first page of DX 398, at the bottom, there's an email

from you. Do you see that? The first page.
A. Oh, I'm sorry. The first page.
Q. Yep.
A. I do see that.
Q. Okay. And it states, "Tim," referring to President Geithner, "Attached is a document that summarizes some of our discussion earlier."
Now, I see the timestamp on the email is 3:16 a.m. Do you see that?
A. I do see that.
Q. So, you would have had a discussion earlier with President Geithner?
A. Yes.
Q. Do you recall how much earlier than 3:16 a.m.?
A. It could not have been more than several hours.
Q. So, it was dark out at the time?
A. It was.
Q. Did you sleep that night?
A. I don't remember.
Q. And what was the purpose of this meeting with President Geithner?
A. The purpose of the meeting was to address his question around the systemic risk importance of AIG.
Q. Okay. And who else do you recall being at this meeting?

A. I recall other members of the working group being at that meeting. I seem to recall Trish Mosser and others. I don't know how specific you want me to be.

Q. Do you recall if anyone outside of the New York Fed attended this meeting?

A. There was no one from outside the New York Fed in attendance at that meeting.

Q. Okay. And who were the decision-makers that attended this early morning on-site meeting?

A. From my vantage point, the decision-maker was then-President Geithner, and, of course, his senior staff was there, members of his senior staff was there, and they would advise in that -- in that discussion.

Q. Okay. Turning back to the cover email, DX 398, you state, "The key takeaway is that AIG could be more systemic in nature than Lehman due to the retail dimension of its business."

Now, first, can you explain why you were comparing them to Lehman?

A. I think we were comparing it to Lehman in large part because -- and my memory isn't precise, but either Lehman was on the verge of filing bankruptcy or it had filed bankruptcy. It was very close to that. So, naturally, that was an additional data point that we could use to help understand and dimension the impact of an AIG failure.

Q. And just so we're clear, what was your understanding of the impact of Lehman's situation at that time?

A. Well, I didn't have a very good understanding of what Lehman's situation was, not having been directly involved in those discussions, but it was clear to me that there were concerns about Lehman's failure, and it was also clear to me that, you know, the markets were very fragile over the course of that weekend.

Q. Okay. And the piece of DX 398 I just read says, "Due to the retail dimension of its," meaning AIG's, "business."

What did you mean by that?

A. The point that we were trying to convey to then-President Geithner was that in contrast to Lehman, which was largely a wholesale banking institution where its counterparties were other sophisticated or relatively sophisticated counterparties, AIG was more interconnected with the economy and potentially larger in size as a result of the various entities that are associated with AIG.

And we were trying to emphasize that AIG actually had more connections with average, ordinary, everyday Americans, through its, you know, insurance policies, through its relationships with municipalities, and other types of products that -- that would affect average individuals.

Q. Pension funds would be another example?

A. That's correct. That's correct.

Q. And turning to the attachment to DX 398, did you, in fact, walk through the issues reflected in this memo with then-President Geithner and the rest of the folks?

A. Yes. The working group did.

Q. Okay. So, you testified earlier that you thought the other memo we discussed previously, the pros and cons document, was the one you walked through with President Geithner. Could it actually be this memorandum?

A. I think it was actually this one. I don't believe it was the last one where we met with him physically.

Q. Okay. Just to turn to the memo briefly, I believe you just said you, in fact, walked President Geithner and the team through the different issues reflected in DX 398?

A. Yes. We discussed these issues.

Q. Okay. And what recommendation is reflected in this memorandum?

A. There was no recommendation. The objective, again, was to ensure this document spanned the views and concerns of the individuals involved in the working group and to provide as neutral a description of what those concerns were so as to give then-President Geithner the strongest basis upon which to take an informed view.

Q. And you talked about earlier or testified earlier about the retail effects. I just want to be clear. I see, if you turn to number 5 -- and I don't recall these -- I think number 5 of -- is it Roman numeral IV on the second page of the exhibit?

A. I see that.

Q. And I guess the next page, the last page, number 5, it talks about investors who lose confidence in subsidiaries.

A. Yes.

Q. Can you explain what information is being conveyed there?

A. The information that's being conveyed here is the difficulty in differentiating the AIG parent from its subsidiaries. The concern was that investors, market participants, and even average Americans could withdraw securities or force liquidations from subsidiaries simply because they shared the same brand name and not being able to distinguish the difference between the holding company and the insurance subsidiaries in a -- in a legal or economic sense.

Q. And then the next one, number 6, can you explain what's -- what information was being conveyed there?

A. Well, one of my concerns was that AIG was providing a form of insurance; in particular, the holding company, if memory serves me correctly, in AIG -- through AIG Financial Products was providing insurance to essentially pensions. So, in circumstances where individuals would retire or there would be some type of life event, they would make a withdrawal from the pension, and typically a pension would have to sell assets in order to meet those obligations.

Many of those pensions bought a kind of insurance from AIG to ensure that if it did have to sell assets at prices below at which they were purchased, that they would be insulated or insured from that risk, having purchased the product from AIG Financial Products.

Q. And so it was your team's assessment that if AIG failed, they would -- these pension funds wouldn't have that protection anymore?

A. That's correct. And this -- this, to me, was the most obvious point of interconnectivity between AIG and the lives of average, everyday Americans.

Q. And why is that?

A. Because many of the companies that purchased this form of insurance were average or -- very large companies that average, everyday Americans, I think, would have recognized, and having seen that those companies were exposed to AIG in this way, it certainly would have undermined their confidence in terms of whether or not their pensions were protected.

Q. Okay. And looking through this memorandum reflected in DX 398, I don't see a mention of a discussion about whether the terms needed to be punitive. Correct me if I'm wrong, but do you recall a discussion about whether any terms of lending needed to be punitive?

A. I don't recall any discussion around the terms, punitive or otherwise.

Q. Did you have any role in crafting the terms of the Fed's assistance to AIG?

A. I did not.

Q. Did anyone on your team have a role?

A. I -- I don't recall. I don't know.

Q. Okay. Do you recall President Geithner's reaction to the presentation that your team gave at this meeting?

A. Yes, I do.

Q. Can you describe to the Court what his reaction was?

A. Well, then-President Geithner -- let me explain it this way. I didn't leave this meeting with a clear understanding of what decision then-President Geithner had taken. My observations of him were that he -- he almost shrunk back in his chair, and it was clear that he was very uncomfortable and under a lot of stress in light of the events of the weekend.

I don't remember his exact words, but -- but I certainly left that meeting with sort of two conclusions, that he was extremely uncomfortable, under a tremendous amount of pressure, and that it wasn't clear to me what decision he had made.

Q. So, you didn't know at that time.

A. I did not.

Q. Okay. Did he explain going into the meeting whether a decision had been made?

A. He did not.

Q. Okay. So, what involvement after this meeting did you have, if any, in the decision by the New York Fed to lend to AIG?

A. So, after this meeting, I wasn't involved in the lending decision at all.

Q. Okay. Mr. LaTorre, I'd like to shift gears now. Mr. Boies asked you yesterday a couple of questions about the Maiden Lane III transaction.

A. Yes.

Q. Okay. But let's take it broadly, and I'd like to start -- can you just give the Court some context on why you were involved in Maiden Lane III?

A. Why I was personally involved in Maiden Lane III?
Q. Yes.
A. So, I think I was involved in Maiden Lane III largely because I had experience in the -- in understanding AIG's exposures given the events of mid-September.
Q. What, the circumstance you just testified about?
A. That's correct. So, I assume that I was asked to return because I had some familiarity with AIG and I had relevant expertise that would be important.
Q. Can you explain the relevant expertise that you had?
A. So, as I -- as I testified earlier, I -- throughout my career at the Federal Reserve Bank of New York, I have been focused on understanding derivatives, how firms use them, how they're priced, and how to assess capital requirements against them. So, that expertise would be relevant in understanding the -- the nature and the complexity of AIG's CDS exposures.
Q. Okay. Do you recall when you started working on Maiden Lane III?
A. I believe it was late October of 2008.
Q. Okay. And who did you work with on that project?
A. I worked with Steve Manzari, Michael Alix, and Paul Whynott.

Q. And who did you report to at the time?
A. At that point in time, I reported to Steve Manzari.
Q. Okay. And what was your role on the Maiden Lane III, which I'll call the project?
A. My specific role was to assist in the design and implementation of the structure. In other words, to flesh out the mechanics and to work through the mechanics of the structure in such a way that it could be credibly implemented if and when policymakers, in this case then-President Geithner and I presume others, decided that this was something that they wanted to do.
Q. Okay. So, what role did you have in the ultimate decision-making authority about how Maiden Lane III would be constructed?
A. I -- I had no role in any decision-making authority about whether to actually execute Maiden Lane III.
Q. Okay. And what was the status of the Maiden Lane III project when you started working on it?
A. The project was still very much in its infancy. No structure or design had yet been agreed upon.
Q. You said agreed upon. By whom?
A. By -- certainly by my colleagues and the individuals that they were working with.

Q. And what was the goal of the Maiden Lane III project?

A. The -- the short answer is that the goal was to avoid downgrade from the rating agencies following the release of AIG's financials. More specifically, the objective was to alleviate the -- the liquidity pressures that were -- that the firm was continuing to experience.

So, the way -- the way I kind of think about the two phases, the events of September and, you know, the events of October and thereafter is, you know, the patient has a heart attack. Maybe the patient is -- you know, you don't really know the medical history. Maybe the patient doesn't have such a great diet, but you manage to stabilize the patient for several months.

Maiden Lane III was really designed to actually, you know, ensure that the patient really recovered. So, to use the analogy again, you actually go into the patient, you perform open heart surgery so that the patient ultimately gets better. That's, I think, the easiest way of understanding how those two phases interacted with one another.

Q. I think that's helpful, and luckily, you didn't -- it wasn't too graphic.

So, can you explain to the Court what the actual liquidity pressures were as of this time, October 2008, I

believe you said?
A. So, the liquidity pressures arose because AIG did not hedge its multisector CDS position, so as a consequence, as the value of the underlying CDOs continued to deteriorate, it was necessary for them to post additional collateral in order to meet their financial obligations with other counterparties.
Q. Okay, we're getting a little complicated. Now, can you explain what a multisector CDS is?
A. The easiest way of understanding a CDS is that it's a -- it's a kind of insurance contract. It's an insurance contract that guarantees some underlying instrument, in this case a bond, a CDO bond. So, if that CDO bond defaults, then AIG would essentially have to make the owner of that bond whole on that exposure.
Throughout, rather than waiting until the moment that the bond defaults for AIG to make payment, AIG was contractually obligated to post moneys throughout as the -- as the price, the market value of the bond deteriorated.
Q. And why -- in what circumstance would AIG be required to post collateral?
A. It would be required to post collateral to the extent that the underlying CDO bonds for which it provided insurance, if those bonds either continue to

deterioriate in price, if those bonds default, or if those bonds are subsequently downgraded. It really depends on the nature of the contractual obligations between AIG and its counterparty.

Q. Is there any other reason that AIG might have been required to post collateral at the time, other than the quality of the bond or the mark of the bond?

A. Yes. So, another reason or another factor could very well be if AIG were downgraded. So, if the company itself were downgraded, there were -- it would have been required to post additional collateral with some of its counterparties.

Q. And I believe you testified earlier that in October 2008, AIG was, in fact, facing that potential downgrade?

A. That's correct. AIG was under the threat of downgrade.

Q. Do you know why the rating agencies were threatening to downgrade AIG at that time?

A. I imagine because they were concerned about the performance of these large concentrated exposures of CDOs.

Q. Do you recall how much time you had to -- by the time you started working on the project, how much time you had to find a solution for AIG?

A. Yes. I would say it was approximately a week.
Q. And why was it just a week?
A. I'm -- well, it was approximately a week because I arrived in late October, and my understanding at the time was that the rating agencies, particularly S&P, was threatening downgrade on the Monday, which is the day that AIG was intending to announce its third quarter earnings results.
Q. Was that Monday, November 10th, 2008?
A. Yes, yes.
Q. And was I hearing your testimony accurately when you said the announcement of AIG's losses was connected with the rating agency downgrade?
A. That was my understanding, yes.
Q. Okay. And you said you started on the project in October. Do you recall when in October? Late October, at least?
A. Yes, late October.
Q. And what was your understanding of what would -- what would have happened to AIG if it were downgraded at that time?
A. Well, if AIG were downgraded at that time, we would basically be back to square one. In other words, all the work that we had done to ensure that the failure of the firm wouldn't create a broader problem for the

economy, all that work would have been undone that we did in mid -- mid-September.

Q. Just so I'm clear, what do you mean by it would have been "undone"?

A. Well, to be clear, the motivation for the original intervention in mid-September was to alleviate the acute liquidity pressures that the firm was experiencing and to avert failure. So, if the rating agencies would have downgraded AIG in that November time frame, then it would have failed, and it would have potentially created the same kinds of risks and concerns that we had tried to address, you know, approximately a month before.

Q. Mr. LaTorre, do you have an understanding of whether AIG at the time was trying to resolve its problems?

A. I did have an understanding at the time that AIG was involved in discussions with its counterparties to alleviate the liquidity pressures.

Q. And do you recall the results of AIG's discussions with its counterparties?

A. Well, the -- what was conveyed to me was the status of those discussions, and it was conveyed to me that those discussions were unsuccessful, and that was clear by the fact that we were entertaining a structure of this kind.

In other words, the fact that we were entertaining the idea of executing Maiden Lane III is consistent with the fact that the discussions had failed.

Q. Meaning it's your understanding that AIG asked the Fed to help out, essentially. Is that --

A. That was my understanding.

Q. Okay. Did you have any direct contact with AIG at that time?

A. At which time, in particular?

Q. When you started on the project, around late October 2008.

A. I had -- again, this is where my memory isn't very good at differentiating particular days in that week, but between the time that we proposed Maiden Lane III and the time that we executed, there were discussions with AIG.

Q. You had discussions with AIG?

A. I was involved in discussions with AIG, particularly around the mechanics of the structure. In other words, making sure that the collateral payments that were due and -- due to and due from AIG were properly and accurately recorded for the purposes of the transaction.

Q. So, more the implementation side?

A. Exactly, yes.

Q. Okay. Did you have any role or was it your -- let me ask it this way.

Was it your general responsibility to keep AIG in the loop on what the New York Fed was doing with respect to Maiden Lane III?

A. It was not.

Q. And are you aware that the New York Fed considered different options as to how to structure Maiden Lane III?

A. Yes.

Q. That was pretty complicated, right?

A. Yes, it was.

Q. Okay. So, I don't want to get into too much detail, but can you just generally describe what options the New York Fed considered in constructing Maiden Lane III?

A. There were basically three options that were all some kind of variation on Maiden Lane III. The first option was essentially -- involved a guarantee. The second option involved the counterparties themselves participating in some kind of structure. So, if you recall, Maiden Lane III has a loan and an equity piece. The idea here in this other structure that I'm discussing now would be to have a loan and several equity pieces or several loans where each of the counterparties would essentially assume risk exposure in the transaction.

Now, ultimately, we -- when I say "we," I guess ultimately policymakers decided that Maiden Lane III was the best option for AIG, and it was also the option that was most feasible to implement given the time constraints that we were facing.

Q. That November 10th deadline?

A. That is correct.

Q. Just for context, can you turn to DX 980 in that same binder? Tell me when you have it in front of you.

A. I have the binder.

Q. Mr. LaTorre, do you recognize this document, DX 980?

A. Yes, I do.

Q. What is it?

A. This is a presentation that we made. I don't recall who. I don't recall if I made -- made -- delivered the presentation, but I certainly recall writing or producing the presentation to I believe New York Fed staff.

Q. If you look at the first page, it says "Board Staff" in the subject line of the email, the first page.

A. Oh, I do see that, yes. So, this was for the Federal Reserve Board staff members.

Q. The Board of Governors?

A. That's correct. So, I didn't -- I don't believe I presented this. No, I -- I know I did not present this to the Board of Governors, but I did draft the presentation.

MR. SCARLATO: Your Honor, we move for the admission of DX 980.

MR. BOIES: No objection, Your Honor.

THE COURT: Defendant's Exhibit 980 is admitted.

(Defendant's Exhibit Number 980 was admitted into evidence.)

BY MR. SCARLATO:

Q. Mr. LaTorre, not to dive too deeply, but is it fair to say that DX 980 outlines the three structures that you were just testifying about?

A. Yes, it does.

Q. Just so we're clear, what structure did the New York Fed ultimately decide upon? And at a high, simple level, if you can.

A. It decided on the structure where AIG would have an equity interest and the Maiden Lane III facility would have a loan interest.

Q. Okay. What do you mean by AIG would have an equity interest?

A. In other words, to the extent that there were losses in the portfolio, AIG would be the first to experience those losses.

Q. Okay. And was AIG entitled to any of the gains in

the Maiden Lane III structure?
A. Yes, they were.
Q. Can you explain what those gains were?
A. I believe that Maiden Lane III was entitled to one-third of any excess beyond the value of the CDOs, the portfolio CDOs.
Q. One-third of the profit?
A. That's right.
Q. Was there any other benefit that AIG received from the Maiden Lane III transaction?
A. Yes. Perhaps the most significant benefit is that it averted downgrade.
Q. And is that the curing the patient like you said earlier?
A. That's exactly right.
Q. So, you mentioned the counterparties. So, the counterparties had some role in discussions about what the structure of the Maiden Lane III transaction was?
A. They did in a narrow sense. So, there were transactions with counterparties where, in exchange for delivering the CDO at market value or fair market value, the underlying CDS would be terminated and the counterparties would retain, for the most part, any collateral posted by AIG up to that point.
Q. Right. And they had to agree to that structure?

A. That's correct. It was voluntary.
Q. Okay. Do you recall any resistance to AIG's counterparties in trying to get them to agree to this structure?
A. I do recall some resistance.
Q. And what was the basis for their resistance?
A. Well, I specifically recall in one discussion that I had and I led that the counterparty was reluctant to close the transaction for two reasons, predominantly. One is that it didn't want to pay any termination costs or any fees associated with delivering the bonds into the structure; and two, they didn't want to give up any profits associated with their position in the bond.
Q. But ultimately, they agreed?
A. Ultimately, they agreed.
Q. Okay. So, let's talk a little bit more about your negotiations with AIG's counterparties. I believe you testified yesterday that you played a role in those?
A. I did, yes.
Q. Okay. And specifically to the -- to the concession issue, I believe you testified on Mr. Boies' examination about that. Just remind the Court which counterparties you recall directly speaking to.
A. So, the counterparties that I recall where concessions were raised was UBS, and, again, I -- a

discussion with one of the French banks. I believe it was SocGen, but I don't know that or remember that specifically.

Q. I'm sorry, if I can just step back. I believe that one of us said that Maiden Lane III was entitled to one-third of the profit -- of the interest in Maiden Lane III. It was actually AIG that was entitled to that profit?

A. That is correct. It was AIG that was entitled to one-third.

Q. Thank you.

Were you under any time constraints when you were having these negotiations with counterparties?

A. Yes, we were. It was the same constraint that I discussed earlier, the threat of imminent downgrade.

Q. On November 10th?

A. That's right.

Q. Before meeting with the counterparties, did you and your Fed colleagues discuss a strategy as to how to try and obtain a concession from the counterparties?

A. We did.

Q. And did you, in fact, when you met with the counterparties, seek to obtain concessions from their -- from them?

A. Yes.

Q. Okay. And were they successful?
A. They were not.
Q. Why not?
A. Well, in the first case, with the French counterparty, they did not accept any concession of any kind; and in the second case, UBS offered a concession, a modest concession, but conditional on other counterparties agreeing to those same terms.
Q. And do you have any understanding as to why they wouldn't agree to a concession?
A. Which?
Q. Either or both.
A. Well, clearly they felt that they had a legally enforceable contract and that there was no leverage to exert concessions. The only credible leverage that we could have exerted in my personal view is to essentially threaten to not support AIG, which was not a credible threat in light of the extraordinary assistance we provided in September.
Q. Meaning the Fed would have lost its $85 billion interest?
A. That's correct.
Q. And did you report the outcome of these negotiations to your superiors at the Fed?
A. Yes.

Q. Okay. Who?

A. I -- I do recall a discussion with then-President Geithner about concessions.

Q. Okay. And just give the Court a flavor for what was discussed in that meeting.

A. We had reported back what the outcomes of those two meetings were to then-President Geithner.

Q. Okay. And what did he say in response?

A. I don't recall exactly what his response was, but it was clear, leaving that meeting, that we were to proceed with the transaction even though we couldn't -- we couldn't convince the counterparties to obtain concessions.

Q. Do you know why?

A. Well, because of the urgency of the situation. By the time -- I don't remember exactly when the counterparty discussions occurred, but I know that we didn't have a lot of time between that moment and the threat of downgrade.

Q. And do you recall if you or your team consulted with AIG on the results of these concession discussions?

A. I don't -- I certainly did not.

Q. Because, as you testified earlier, it wasn't your job to do that?

A. That's right.

Q. Okay. Do you know if AIG was generally informed as to the progress of the Maiden Lane III closing?
A. I believe they were, but, again, I -- I -- that wasn't my -- my responsibility.
Q. Can you turn, then, to DX 666 in that binder.
A. I see the exhibit.
Q. Okay. Do you recognize this document?
A. I do recognize the document.
Q. It's an email from James Bergin, who's a New York Fed attorney?
A. Yes, that is correct.
Q. And it was sent to you?
A. Yes.
Q. Okay.
Your Honor, we move for the admission of DX 666.
MR. BOIES: No objection, Your Honor.
THE COURT: Defendant's Exhibit 666 is admitted.
(Defendant's Exhibit Number 666 was admitted into evidence.)
MR. SCARLATO: Thank you, Your Honor.
BY MR. SCARLATO:
Q. Mr. LaTorre, can you describe for the Court what the substance of this document reflects, generally?
A. Generally, these are the documents that governed the termination of the CDS, the delivery of the CDOs

between AIG and its counterparties.
Q. And there's an email at the bottom from weil.com. That's the law firm Weil Gotshal?
A. That is correct.
Q. And that was AIG's counsel?
A. Yes.
Q. And looking at the attachment, am I correct in seeing that AIG's counsel gave some comments on the terms of the ML III documents?
A. Yes. I see comments on the term sheet.
Q. The draft term sheet?
A. That's correct, yes.
Q. Okay. You can put that document aside.
So, you testified earlier, I think, that a deal was reached with the counterparties by the deadline, November 10th?
A. Yes.
Q. And just so we're clear, to what extent, if any, did the time that your team had to negotiate with the counterparties affect your ability to, in fact, obtain concessions?
A. Well, it was a significant factor in our minds as to whether or not we needed or should continue to pursue concessions. That was my understanding at the time, again, not -- not being involved in the decision-making.

Q. Okay. If you can turn now to the other binder, the black binder that Mr. Boies gave you yesterday. There might be two, but it's the one that's -- not the one that has your deposition in it. I believe it's the other one. The other one. Oh, open that up. See if there are a bunch of exhibits in there. Sorry.

A. Yes, I see exhibits here.

Q. Okay. Can you turn to PTX 334 in that binder.

A. Yes.

Q. And I believe this was a document Mr. Boies showed you yesterday?

A. Yes.

Q. And it's been entered into evidence already, Your Honor.

Can you just explain for the Court in greater detail, what does it mean by "Give Up Analysis," which seems to be the title of this document?

A. Well, this was an analysis done by BlackRock that compared what the growth and value would be to the CDOs under certain kinds of assumptions, and the -- the fact that there were different numbers reflects that there were different assumptions about the underlying economy and housing prices.

Q. Okay. And this related to Maiden Lane II and Maiden Lane III, you said?

A. That is correct.

Q. Okay. And under what circumstances, in your understanding, would AIG have been giving up that upside?

A. Well, candidly, I don't think there would have been any circumstances under which AIG would be giving up upside, because it would not have survived as an entity if we hadn't done Maiden Lane III. So, the fact that there was an estimate of potential upside absent Maiden Lane II or Maiden Lane III wasn't really a real option, because it assumed that the company would have survived.

Q. And that would require more assistance in order to survive?

A. That would have required more assistance, but even with that more assistance, the company was still threatened with downgrade. So, in my view, that first option wasn't really an option available to AIG, which is why I explained earlier that Maiden Lane III was the best option.

Q. And it also -- does this analysis account for the one-third equity stake that AIG got in the ultimate Maiden Lane III deal?

A. The -- I believe this second estimate should -- should do that.

Q. What do you mean by the "second estimate"?

A. In other words, the first estimate, where it

describes the growth in value without Maiden Lane II and Maiden Lane III --
Q. Um-hum.
A. -- if I understand correctly, that would not have covered the one-third/two-third split for Maiden Lane III; however, my understanding would be that the second estimate that describes what the growth and value would be with Maiden Lane II and III would have included that split.
Q. The smaller number?
A. That's correct.
Q. Okay. Finally, Mr. LaTorre, I would like to refer back to some of the questions Mr. Boies had about this disclosure issue, the disclosure of information relating to Maiden Lane III. Do you remember testifying about that yesterday?
A. I do.
Q. To give the Court some context, can you explain what your -- what authority you had over the decision as to whether to disclose the details of the Maiden Lane III transaction?
A. None.
Q. Who did?
A. Ultimately, my understanding was that AIG had some authority to determine what it was going to disclose

about the transaction.

Q. Okay. Do you -- I think you testified yesterday it was your understanding or at least your personal belief that AIG should not disclose the details of the Maiden Lane III transaction?

A. That was my personal view, yes.

Q. Can you explain why that was your view?

A. That was my view predominantly for two reasons. We executed Maiden Lane III with the counterparties with the understanding that the terms, which included both the price, the name of the counterparties, would be kept confidential; and more importantly, I was concerned -- and as I expressed yesterday, others on my team were concerned -- that disclosing the names or the terms of the contract would ultimately make it more costly for AIGFP to unwind the remaining derivative exposures on its books and ultimately make it more difficult for the New York Fed, and ultimately the taxpayer, to recoup the -- the exposure that it had.

Q. And that included even the names of the counterparties?

A. That's correct. That's correct.

Q. If you can turn to PTX 459 in that same binder.

A. I'm sorry, PTX?

Q. PTX 459 in that same binder.

A. I see the exhibit, yes.

Q. Yes. I don't believe Mr. Boies showed it to you yesterday, but I'd like to.

I don't see your name on the first page, but if you turn to page 2, for sure, and page 3, I see an exchange of email between James Bergin, you, Sarah Dahlgren, and some others. Is that consistent with your understanding?

A. Yes.

MR. SCARLATO: Your Honor, we would like to move for the entry of PTX 459.

MR. BOIES: No objection, Your Honor.

THE COURT: Plaintiffs' Trial Exhibit 459 is admitted.

MR. SCARLATO: Thank you.

(Plaintiffs' Exhibit Number 459 was admitted into evidence.)

BY MR. SCARLATO:

Q. Mr. LaTorre, if you can turn to page 3 of 5, the numbers on the bottom, 3 of 5.

A. I see the page.

Q. The second line of the top email from James Bergin states, "As currently presented, this filing would disclose CUSIP/ISIN numbers and Tranche Names. This information has not been publicly disclosed in the media, and could prejudice us from a business perspective."

Is that consistent with the testimony that you just gave about why it wasn't a good idea to disclose AIG's counterparties?

A. Yes, and with the testimony I gave you yesterday.

MR. SCARLATO: With that, I pass the witness, Your Honor.

THE COURT: All right.

Redirect?

REDIRECT EXAMINATION

BY MR. BOIES:

Q. Good afternoon, Mr. LaTorre.

A. Good afternoon, Mr. Boies.

Q. Let's stay with that document that counsel was just showing you.

A. Can you -- can you remind me of the exhibit? I closed the binder.

Q. Plaintiffs' Trial Exhibit 459.

A. I see the exhibit.

Q. And he was showing you an email on page 3 of that exhibit. Do you recall that?

A. Yes, I do.

Q. And who is that exhibit from? Who is that email from?

A. I see two emails. Do you mean the one on top or

the one on the bottom?
Q. The one that he referred your attention to. Do you remember --
A. Oh, I'm sorry. From James Bergin?
Q. Yes. And that is an email from Mr. Bergin to a variety of people, correct?
A. Yes.
Q. Now, Mr. Bergin is at the Federal Reserve, correct?
A. Yes.
Q. And when he says, "I thought we had decided to release counterparty names and amounts," do you see that?
A. Yes, I do.
Q. The "we" there he is referring to is whom?
A. I don't know.
Q. As you understood it at the time.
A. I don't recall how I understood it at the time.
Q. Well, the last sentence, where he says, "This information has not been publicly disclosed in the media, and could prejudice us from a business perspective." Do you see that?
A. I do see that.
Q. The "us" there is the Federal Reserve, correct?
A. I believe so, yes, but it could also be AIG.
Q. But Mr. Bergin is -- who is writing this is from

the Federal Reserve, right?
A. That is correct, but the -- but the disclosure would have also prejudiced AIG because of the position that it had in Maiden Lane III.
Q. Now, you say it would have prejudiced AIG. Did anyone from AIG ever tell you that?
A. No, but they didn't have to.
Q. Well, let me ask you to listen to my question.
A. Sure.
Q. My question is, did anybody from AIG ever tell you that?
A. No, sir.
Q. Okay. And did you ever see anything in writing from AIG that said AIG believed that releasing the names would prejudice AIG from a business perspective?
A. I did not.
Q. Now, let me ask you to look at the first page, and there is an email from Stephanie Heller. Do you see that? March 12th, 2009, at 8:42 p.m.
A. I do not. It's on the first -- the first of five?
Q. Yes.
A. Okay. I see an email from Helen Mucciolo to James P. Bergin, and I see another email from James P. Bergin -- oh, I see, the last email. I apologize. Yes, I see the email from Stephanie Heller.

Q. Now, this email from Stephanie Heller is March 12th, 2009, 8:42 p.m., correct?
A. Yes.
Q. And who was Stephanie Heller?
A. Stephanie Heller is an attorney at the Federal Reserve Bank of New York.
Q. And she is writing to a variety of people, including Mr. Bergin?
A. Yes.
Q. And the subject is "Counterparties." Do you see that?
A. Yes, I do.
Q. And she writes, "Sounds like we are trying to hold it back." Do you see that?
A. Yes, I do.
Q. Now, did you see this email at or about the time it was sent?
A. I did not. This is my first recollection of this email.
Q. Then Mr. Bergin replies to Stephanie Heller at 8:44 p.m. the same day. Do you see that?
A. I do not. I'm sorry, I --
Q. It's right next to the email from Stephanie Heller. Just look right above that.
A. Oh, yes. Yes, I do see that. I'm sorry. I

apologize.

Q. And Mr. Bergin -- two minutes after Ms. Heller's email, Mr. Bergin writes, "Yes, we don't intend to disclose that." Do you see that?

A. I do see that.

Q. And was that your understanding as of March 12th, 2009, as to the Federal Reserve's position?

A. I -- I don't recall.

Q. You don't recall one way or the other?

A. I don't recall one way or the other, not at that particular point in time. I do recall that ultimately a decision was made to release the counterparty names.

Q. That was only after Congress had put up a really big fuss about not getting the names released, correct, sir?

A. Again, I don't know -- I wasn't part of the decision-making to release the names. So, I don't -- I don't know what's -- what were the motivating factors that led to that decision.

Q. I'm not actually asking you, in my question, for motivating factors. What I'm simply asking you is for a time frame. You've mentioned that there came a time when the names were actually released. Do you recall that?

A. Yes, I do.

Q. And all I'm asking you is that happened after there was a congressional uproar about the failure to release the names, correct?

A. What I do recall is that the names were disclosed in testimony to Congress by then-CEO Edward Liddy.

Q. And do you recall that that only happened after Congress had made a lot of noise about not getting the names? Just yes or no, sir.

A. I -- I don't remember.

Q. Okay.

A. I -- I understood that there were concerns raised by Congress, but I don't remember the sequence of events.

Q. Okay. Let me ask you about the discussions with counterparties. Counsel for the Defendant asked you whether you had been successful in obtaining concessions from counterparties. Do you recall that?

A. Yes, I do.

Q. First, when did you first start asking for concessions?

A. I don't recall the precise day of when we started asking for concessions, but I do recall that there wasn't a lot of time between the time that that was happening and the downgrade of the company, the potential downgrade of the company.

Q. Let me ask the question this way: How long was it after you started asking for concessions before the

decision was made not to ask for any further concessions?
A. I believe it could have been approximately 24 hours or in that neighborhood.
Q. Okay. And when you met with the counterparties to ask for concessions, you told the counterparty that their giving of concessions was entirely voluntary, correct, sir?
A. Well, I did not communicate to the counterparties those discussions, but my understanding was -- and I believe their understanding -- was that the transactions were voluntary, yes.
Q. And not only was that the counterparties' understanding, perhaps, but the person on behalf of the Federal Reserve who was communicating with the counterparties explicitly said to the counterparties that any concessions that they gave or didn't give would be entirely voluntary, correct?
A. I -- I can't recall the precise words that the individuals who led those discussions were. I'm not -- I don't even recall the word "voluntary" coming up, but...
Q. You did recall that there was a script, correct?
A. That's correct.
Q. And let me ask you to look at Plaintiffs' Trial Exhibit 718.
A. I -- 718?

Q. Yes.
A. Okay, you -- thank you.
Q. Which I would offer.
MR. SCARLATO: Your Honor, I'm not sure that Mr. Boies has established a foundation that this witness had any involvement with this document. It's a foundation objection.
THE COURT: Well, we -- overruled. I'm going to admit Plaintiffs' Trial Exhibit 718.
MR. SCARLATO: Thank you, Your Honor.
(Plaintiffs' Exhibit Number 718 was admitted into evidence.)
BY MR. BOIES:
Q. Mr. LaTorre, this is a document that is headed "Script for Counterparty Discussions." Do you see that?
A. Yes.
Q. And is this a document you've seen before?
A. Yes.
Q. And is this the script for counterparty discussion that you previously testified about?
A. Yes.
Q. And was this script used in the two counterparty discussions that you were present at?
A. It wasn't read verbatim, but it was used.
Q. And do you see, in the last full paragraph, the

second sentence that says, "Of course, participation is entirely voluntary"? Do you see that?

A. Yes, I do.

Q. And does that refresh your recollection that that is what counterparties were to be told?

A. Yes, but as I explained, I don't know if we read -- in fact, I don't believe we read this script word for word to the counterparties, but we conveyed what the most salient points were, and I don't recall -- I don't recall the word "voluntary," but I think it was understood.

Q. You certainly recall that the substance of what is provided here in the script was conveyed, correct?

A. Yes.

THE COURT: May I suggest this as a stopping point, because I have a couple of --

MR. BOIES: Yes, Your Honor.

THE COURT: -- housekeeping matters that I want to address before we break for the week.

MR. BOIES: Yes, Your Honor.

THE COURT: All right. First of all, I discovered on the weekend of Veterans Day, I had always understood that the Federal Government observed that holiday as a Monday holiday, at least that was my recollection, and I made plans for that weekend, returning on Monday, and then learned today that, no, it's actually going to be observed on Tuesday. And so that's going to unfortunately cost us a day in the trial schedule that I had laid out for you. I hope that doesn't cause a problem. Maybe we'll be done by then, who knows?

MR. DINTZER: If we're not, Your Honor, I think I can speak for both sides by saying that the break would be welcome.

THE COURT: Well, I thought that might be the case, too, that we will have been at it for quite a while by then, and so maybe you would enjoy that. In any event, we are not going to be able to meet on Tuesday, because that's when Veterans Day will actually be observed.

And then my other question simply is to learn what's up for next week, at least the beginning of the week.

MR. DINTZER: Your Honor, I -- just perhaps the witness should be excused before we start talking about --

THE COURT: Sure, that's fine. Mr. LaTorre, you are excused for the day.

THE WITNESS: Thank you, sir.

THE COURT: And we will finish up with you, I presume, on Tuesday.

MR. BOIES: Yes, Your Honor.

MR. DINTZER: Yes, Your Honor.

MR. BOIES: Following the completion of --

THE COURT: Just one moment. Let's wait until Mr. LaTorre is out of the courtroom.

(Witness excused.)

THE COURT: All right, go ahead.

MR. BOIES: Following the completion of Mr. LaTorre, we are going to go with Ms. McConnell, Ms. McLaughlin, Mr. Dinallo, Ms. Dahlgren. We have then asked for both Mr. Willumstad and Douglas Foshee. Mr. Willumstad was the CEO at the time of -- on September 15th, 2008, and Douglas Foshee is one of the three trustees of the trust. They may have some scheduling issues, and we are trying to work through those now.

We plan to call Mr. Liddy on Thursday. If we are still not finished with the witnesses I've identified, we will finish whatever witness is on the stand and then go directly to Mr. Liddy and pick up the witnesses that we didn't get to after Mr. Liddy.

Then following Mr. Liddy and the other witnesses I've identified, we will have Chester Feldberg, who is another one of the trustees, and we are currently trying to work out a schedule for Mr. James Head, from Morgan Stanley and Mark Simmons from Ernst & Young, and Rodgin

Cohen from Sullivan & Cromwell. And we think we will get one or more of those three people.

THE COURT: All right, very well.

MR. BOIES: I have a couple of housekeeping issues.

THE COURT: Let me just say while it's on my mind, though, I appreciate having that information. I'll say to both of you that I'm looking forward to picking up the pace a little bit. The evidence is starting to be cumulative, and I'm really looking for new information that I haven't heard about before to enhance my understanding of the case. I don't need any more definitions of moral hazard.

MR. DINTZER: Fair enough, Your Honor.

THE COURT: So, yeah, let's -- let's not keep covering the same subjects, if we can.

Yes, Mr. Boies?

MR. BOIES: We will try to do that, Your Honor, and I think the focus next week, except possibly for Mr. Liddy -- I think Mr. Liddy may be a broader witness -- but except for Mr. Liddy, I think the focus on each of the other witnesses is going to be considerably more focused.

And then following this coming week, we will have a series of witnesses that will be really focused; that is, these are people that we are putting on simply because we, at least thus far, have been unable to stipulate one or two facts that we have in their depositions or a few documents. It may be that we eliminate those entirely. If we don't, we will bring them in for literally an examination that will be in the neighborhood of, like, 15 minutes. With respect to those people, we will, as I said at the beginning of the trial, ask to have any examination limited to the scope of our examination so that we don't sort of totally get our case out of control.

THE COURT: Understood.

MR. BOIES: Following that, we may have -- we may have one or two fact witnesses, but then we will go to some experts, and that will -- and then we will close our case.

THE COURT: All right. Very well.

Well, as you know, Monday is Columbus Day, so don't come Monday. We'll adjourn until 9:30 on Tuesday morning.

MR. BOIES: Thank you, Your Honor.

(Whereupon, at 5:01 p.m., the proceedings were adjourned.)

CERTIFICATE OF TRANSCRIBER

I, Josett Whalen, court-approved transcriber, certify that the foregoing is a correct transcription from the official digital sound recording of the proceedings in the above-titled matter.

DATED: ______________________________

JOSETT F. WHALEN, RMR-CRR

I, Susanne Bergling, court-approved transcriber, certify that the foregoing is a correct transcription from the official digital sound recording of the proceedings in the above-titled matter.

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SUSANNE BERGLING, RMR-CRR-CLR

ADMITTED EXHIBITS

PX	PAGE	DESCRIPTION
11	2250	Policy Statement on Financial Market Developments
15	2250	Bernanke Speech at the Federal Reserve Bank of Atlanta Financial Markets Conference, Sea Island, Georgia, "Liquidity Provision by the Federal Reserve" (May 13, 2008)
200	2116	Federal Reserve System, Goldman Sachs Order Approving Formation Of Bank Holding Companies (Sept. 21, 2008)
201	2116	Federal Reserve System, Morgan Stanley Order Approving Formation Of Bank Holding Companies (Sept. 21, 2008)
220	2122	9/22/2008 Federal Reserve Board of Governors Press Release
339	2250	Report Pursuant to Section 129 of the Emergency Economic Stabilization Act of 2008: Secured Credit Facility Authorized for American International Group, Inc. On September 16, 2008
361	2250	Email (11/9/2008 6:45 pm) From: Neel Kashkari To: Rawan Abdelrazek re: Fw: FINSOB - Materials for Today's Meeting Attaching "Actions to Stabilize AIG: Financial Stability Oversight Board: November 9, 2008"
393	2250	Periodic Report Pursuant to Section 129(b) of the Emergency Economic Stabilization Act of 2008: Update on Outstanding Lending Facilities Authorized by the Board Under Section 13(3) of the Federal Reserve Act December 29, 2008
406	2114	Report Pursuant to Section 129 of the Emergency Economic Stabilization Act of 2008: Authorization to Provide Residual Financing to Bank of America Corporation Relating to a Designated Asset Pool
447	2250	March 3, 2009 Hearing before the Senate Committee on the Budget: Economic and Budget Challenges for the Short and Long Term
449	2250	Hearing before the Senate Committee on Banking, Housing, and Urban Affairs: American International Group: Examining What Went Wrong, Government Intervention, and Implications for Future Regulation (3/5/2009)
459	2340	Email (3/12/2009 8:45 pm) From: Helen Mucciolo To: James Bergin, Stephanie Heller, cc: Sandy Krieger, Zachary Taylor

PX	PAGE	DESCRIPTION
466	2250	Email (3/15/2009 10:21 am) From: Ben Bernanke To: Hank Paulson, cc: Andrew Mayock, Cheryl Matera, Mark Patterson, Sara Aviel, Tanshel Pointer, William Dudley, Michelle Smith, Scott Alvarez, Donald Kohn re: Re:
482	2250	Email (3/25/2009) From: Ben Bernanke To: Scott Alvarez re: Call to Liddy
491	2250	Email (4/1/2009 5:36 pm) From: William Dudley To: Rita Proctor, Donald Kohn, Kevin Warsh, cc: Scott Alvarez, Rich Ashton, Carol Grunwald, Catherine Voigts, Christina Anzalone, James Bergin, Meg McConnell, Michael Alix, Michael Schetzel, Michael Silva, Nicholas C. Brophy, Sandy Krieger, Sarah Dahlgren, Steven Manzari, Terrence Checki, Thomas Baxter, James Hennessy, Alejandro LaTorre re: AIG restructuring options
553	2143	December 3, 2009 Hearing before the Senate Committee on Banking, Housing, and Urban Affairs: Nomination of Ben S. Bernanke
561	2250	Letter (1/19/2010) From: Ben Bernanke To: Christopher Dodd
650	2250	Bernanke speech at the Conference on “Rethinking Finance: Perspectives on the Crisis,” "Some Reflections on the Crisis and the Policy Response," Presented by the Russell Sage Foundation and The Century Foundation New York, New York (April 13, 2012)
680	2284	Executive Office of the President, "The Financial Crisis: Five Years Later" (September 2013)
718	2348	Script for Counterparty Discussions
728	2250	Federal Reserve Board of Governors Website "Primary Dealer Credit Facility" and Attached Excel Spreadsheet, available at http://www.federalreserve.gov/newsevents/reform_pdcf.htm
733	2250	Bagehot, “Lombard Street: A Description of the Money Market,” Scribner, Armstrong & Co. (1877)
1041	2142	Bernanke, Ben S., “The Subprime Mortgage Market,” Presented to the Federal Reserve Bank of Chicago’s 43rd Annual Conference on Bank Structure and Competition, Chicago, Illinois (May 17, 2007)
1201	2112	March 14, 2008 Meeting Minutes of the Board of Governors of the Federal Reserve System
1212	2250	Minutes of Meeting of the Federal Open Market

PX	PAGE	DESCRIPTION
1833	2115	Federal Reserve System - American Express Company & American Express Travel Related Services Company, Inc.Order Approving Formation of Bank Holding Companies and Notice to Engage in Certain Nonbanking Activities
2179	2284	Bernanke, Ben S., “Monetary Policy and the Housing Bubble,” Annual Meeting of the American Economic Association, Atlanta, Georgia (January 3, 2010)
2297	2125	“Extraordinary Financial Assistance Provided to Citigroup, Inc.,” Office of the Special Inspector General for the Troubled Asset Relief Program (Jan. 13, 2011)
2554	2121	Report Pursuant to Section 129 of the Emergency Economic Stabilization Act of 2008: Bridge Loan to The Bear Stearns Companies Inc. Through JPMorgan Chase Bank, N.A.

DX	PAGE	DESCRIPTION
270	2192	EMAIL FROM DONALD KOHN TO TIMOTHY GEITHNER RE: AIG
303	2299	EMAIL FROM PATRICIA MOSSER TO ALEJANDRO LATORRE, RE: AIG MEETING WITH CHRISTINE
664	2287	BOGFRS NOTATION VOTING ITEM TOPIC MONETARY & FINANCIAL POLICY RE: AIG, ATTACHMENT MEMORANDUM FROM STAFF OF FEDERAL RESERVE SYSTEM TO BOARD OF GOVERNORS RE: PROPOSED STEPS TO STABILIZE AMERICAN INTERNATIONAL GROUP
666	2334	EMAIL FROM JAMES P BERGIN TO PAUL WHYNOTT; ALEJANDRO LATORRE; STEPHANIE HELLER; JOYCE HANSEN; JENNIFER WOLGEMUTH; JIM MAHONEY; DANIELLE VICENTE RE: COMMENTS TO ML III DOCUMENTS
979	2233	EMAIL FROM MICHELE SMITH TO CHAIRMAN RE: RE HERE IS THE FINAL PRESS RELEASE -- GOING AT 9
980	2328	EMAIL AND ATTACHMENT FROM ALEJANDRO LATORRE TO PAUL WHYNOTT RE: SLIDES FOR BOARD STAFF PRESENTATION; ML III - BOARD STAFF.PPT
1444	2207	EMAIL FROM CHAIRMAN TO BRIAN MADIGAN ET AL, RE: RE DRAFT MEMO ON AIG
1611	2238	FEDERAL RESERVE BOARD WEBSITE: BERNANKE, BEN "SPEECH AT THE FEDERAL RESERVE BOARD CONFERENCE ON KEY DEVELOPMENTS IN MONETARY POLICY," (OCTOBER 8, 2009), WASHINGTON, D.C.