

1                   **THIS IS AN UNCERTIFIED ROUGH DRAFT**  
2                                   **IN THE MATTER OF**  
3                                   **STARR INTERNATIONAL VS. USA**  
4                                   **TRIAL VOL. 11, OCTOBER 14, 2014.**

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6                                   **THE FINAL TRANSCRIPT MAY VARY**  
7                                   **WITH REGARD TO PAGE/LINE NUMBERING**  
8                                   **AS WELL AS SUBSTANTIVE CONTENT.**

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10                                   **THE COURT REPORTER RESERVES THE**  
11                                   **RIGHT TO MAKE ANY AND ALL CHANGES**  
12                                   **NECESSARY TO PROVIDE AN ACCURATE**  
13                                   **FINAL TRANSCRIPT.**

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15                                   **THEREFORE, THIS DRAFT IS FOR**  
16                                   **INTERNAL LAW FIRM/AGENCY PREPARATION ONLY**  
17                                   **AND SHOULD NOT BE CITED TO THE COURT,**  
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19                                   **APPROPRIATE DISCLOSURES.**

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21                                   **ACCEPTANCE OF THIS DRAFT TRANSCRIPT**  
22                                   **CONSTITUTES A FINAL TRANSCRIPT ORDER.**

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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.

Tuesday, October 14, 2014

9:30 a.m.

Trial Volume 11

BEFORE: THE HONORABLE THOMAS C. WHEELER

Josett F. Whalen, RMR-CRR, Reporter

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DRAFT



1 A. Yes.

2 Q. And you testified that it was your understanding  
3 that the project was still very much in its infancy at  
4 that time. Do you recall that?

5 A. Yes.

6 Q. You did know that it had been going on for a while  
7 before you arrived; correct?

8 A. I'm sorry. Can you clarify, when you say I knew  
9 what was going on exactly?

10 Q. Maiden Lane III.

11 A. I did not.

12 Q. You did not.

13 A. No.

14 Q. Did you ever try to find that out?

15 A. No, I did not.

16 Q. Let me ask you to look at Plaintiffs' Trial  
17 Exhibit 287, which I will hand up.

18 And do you remember telling counsel for the  
19 defendant that there really wasn't time to get  
20 concessions or negotiate for concessions because you were  
21 under a time deadline?

22 A. Yes.

23 Q.

24 MR. BOIES: I would offer Plaintiffs' Trial  
25 Exhibit 287.



1 MR. SCARLATO: Your Honor, we object because I  
2 believe at the time this is early October BlackRock was  
3 not in fact an advisor for the New York Fed, so we object  
4 on hearsay grounds.

5 THE COURT: Mr. Boies?

6 MR. BOIES: Your Honor, this is from BlackRock to  
7 people at the New York Fed, and it's talking about  
8 structuring Maiden Lane III in October 7, 2008, almost a  
9 month before the witness said the project was in its  
10 infancy. I think it is directly relevant to the witness'  
11 testimony. It's an authentic document.

12 THE COURT: I'm going to overrule the objection.  
13 Plaintiffs' Trial Exhibit 287 is admitted.

14 MR. SCARLATO: Thank you, Your Honor.

15 **(Plaintiff's Exhibit Number 287 was admitted into**  
16 **evidence.)**

17 BY MR. BOIES:

18 Q. Now, I take it it's your testimony, Mr. LaTorre,  
19 that you never saw this document.

20 A. I have not.

21 Q. And I take it it is also your testimony that no  
22 one ever told you that the Federal Reserve Bank personnel  
23 were working with BlackRock on a Maiden Lane III  
24 structure prior to October 7, 2008; correct?

25 A. They did not.

1 Q. Let me ask you to look at the paragraph that is in  
2 the middle of the page. It begins, "Tomorrow morning."

3 A. I see that paragraph.

4 Q. It says, "Tomorrow morning, AIG is meeting with  
5 Goldman on tearing up the swaps. Do you see that?"

6 A. I do see that.

7 Q. And after you became involved, did anyone tell you  
8 that AIG had had meetings with Goldman on tearing up the  
9 swaps?

10 A. I was aware after my arrival that there had been  
11 discussions between AIG and its counterparties.

12 Q. And then the third sentence of that paragraph  
13 says, "As the attached lays out, we believe that tear-up  
14 price ought to be \$4 billion to \$6 billion while Goldman  
15 now holds \$9 billion in collateral and is asking for  
16 \$1 billion more."

17 Do you see that?

18 A. I do see that.

19 Q. Did anyone ever tell you that BlackRock believed  
20 that the tear-up price for the Goldman CDS should be  
21 4 billion to 6 billion?

22 A. I don't recall.

23 Q. And it says our president, Robert Kapito, is  
24 joining to put pressure on Goldman to set expectations,  
25 Goldman is unlikely to relent, absent moral suasion. Why

1 should they if they hold all that free collateral? A  
2 tear-up at a bad price -- say \$9 billion -- would cost  
3 AIG and the Fed three to five billion dollars for Goldman  
4 alone.

5 Do you see that?

6 A. I do see that.

7 Q. Did anyone ever tell you, before you participated  
8 in negotiations with counterparties, what BlackRock had  
9 estimated good prices and bad prices for the tear-up  
10 would be?

11 A. I don't recall. I don't remember.

12 Q. You do recall, do you not, sir, that some  
13 counterparties had actually called and asked for tear-up  
14 prices; correct?

15 A. I'm sorry. I wasn't involved in any conversations  
16 directly with counterparties regarding tear-up prices.  
17 As I testified earlier, I participated in two meetings.  
18 I was not the lead in either of those meetings have that  
19 is how I became aware of the concession discussions with  
20 counterparties.

21 Q. Didn't you testify to defendant's counsel that you  
22 had a discussion with a counterparty in which the  
23 counterparty expressed resistance to the ML III  
24 structure? Didn't you tell that to Mr. -- to counsel for  
25 the defendant?

1 A. Yes. That is correct.

2 Q. Well --

3 A.

4 Q. You either had a conversation with a counterparty  
5 or you didn't?

6 A. It was not about concessions.

7 Q. What?

8 A. That conversation was not about concessions.

9 Q. Let me see if I understand what you're saying,  
10 sir. You had discussions yourself with counterparties.  
11 That's what you're testifying to?

12 A. No. What I testified to earlier was that I  
13 specifically recall two discussions involving concessions  
14 with counterparties. One of those counterparties was UVS  
15 and the other one was a French institution. I can't  
16 recall exactly which one. Those were the two  
17 conversations I was involved that discussed concessions.  
18 The conversation that you referenced earlier was with a  
19 counterparty, but that did not involve concessions.

20 Q. Let me go back to my question.

21 A. Sure.

22 Q. You were testified that you personally had  
23 discussions with counterparties; correct?

24 A. Yes. I was involved in discussions with  
25 counterparties.

1 Q. I didn't ask involved. You testified that you  
2 specifically had a discussion with a counterparty, you  
3 personally?

4 A. Yes.

5 Q. That's what you testified to; right?

6 A. That is correct, yes.

7 Q. Now, how many counterparties did you personally  
8 talk to?

9 A. I -- I can't recall the precise number.

10 Q. Approximately.

11 A. Approximately maybe seven or eight, approximately.

12 Q. And were you, as you describe it, the lead person  
13 in these discussions for the Federal Reserve Bank?

14 A. Not in all of them. But yes, I was the lead  
15 discussant for some of them.

16 Q. How many?

17 A. I can't remember.

18 Q. Approximately?

19 A. I'd say maybe four.

20 Q. And which of the counterparties that you were the  
21 lead on in having discussions?

22 A. The only two that I remember explicitly were  
23 Deutsche Bank and Barclays, and that was post the  
24 discussion on concessions or post the decision on  
25 concessions. That decision had already been made.

1 Q. What was the purpose of your discussion with  
2 Deutsche Bank and Barclays?

3 A. The purpose of the discussion was to make sure  
4 that the counterparties understood what the expectations  
5 were regarding the participation in the transaction, what  
6 was expected of them to participate.

7 Q. And did you have more than one discussion with  
8 Deutsche Bank?

9 A. I can -- I only recall one vividly.

10 Q. Do you recall one less vividly?

11 A. I -- I -- I don't know. There was at least one.

12 Q. How many did you have with Barclays?

13 A. At least one.

14 Q. Were there any or than one?

15 A. I don't recall.

16 Q. And in those discussions, did Deutsche Bank and  
17 Barclays agree to whatever it was you were telling them  
18 was the understanding of what would be expected?

19 A. Yes.

20 Q. Now, with respect to the discussions that you had  
21 with counterparties where you were not the lead or with  
22 respect to the discussions at which you were present,  
23 those were the UBS and the French bank; is that correct?

24 A. That is correct.

25 Q. Anybody else?

1 A. Those are the only ones I can recall. There was  
2 one discussion with Goldman.

3 Q. That you were present at?

4 A. That I was present at.

5 Q. When was that discussion?

6 A. I don't recall.

7 Q. Was it before or after November 7?

8 A. I don't recall.

9 Q. Was it before or after the Federal Reserve Bank  
10 had decided not to seek concessions?

11 A. I don't -- I don't remember the precise date. I  
12 think it was after.

13 Q. Who else was present at the Goldman discussions?

14 A. I recall Paul Whynott was present at the Goldman  
15 discussions.

16 Q. And what was the subject of the Goldman  
17 discussions?

18 A. The subject matter was similar to the discussion I  
19 referenced earlier with Deutsche Bank, making sure that  
20 Goldman understood what was expected of it in order to  
21 participate in the transaction.

22 Q. And did they agree to what you laid out or what  
23 was laid out by Mr. Whynott as to what was expected of  
24 Goldman in order to participate in the transaction?

25 A. Yes.

1 Q. And I take it that the discussions that you  
2 referenced with UBS and the French bank were discussions  
3 that preceded the Federal Reserve Bank of New York's  
4 decision not to seek concessions; correct?

5 A. Yes.

6 Q. Now, let me go back to the question that started  
7 this line.

8 Were you aware of any counterparties that had  
9 affirmatively asked that they be provided with a price at  
10 which their CDS protection could be torn up?

11 A. I don't recall whether any of the counterparties  
12 specifically asked for a price.

13 Q. Let me ask you to look at Plaintiffs' Trial  
14 Exhibit 348 that is in your binder, and which I would  
15 offer.

16 A. I see the exhibit.

17 MR. SCARLATO: Your Honor, we object. I believe  
18 this document reflects two levels of hearsay. The first  
19 we do not object but it mentions a discussion with  
20 someone at AIG, so on that ground we would object.

21 MR. BOIES: Your Honor, this is a document from  
22 Paul Whynott who was the person that the witness just  
23 identified at the Federal Reserve Bank. It is to  
24 Terrence Checki, who is again a person at the  
25 Federal Reserve Bank with responsibilities here. It is



1 true that it discussed -- it reflects discussions with  
2 the Federal Reserve Bank was having with AIG, but that  
3 does not make it hearsay.

4 MR. SCARLATO: Your Honor, if I may, I actually  
5 think there's a third layer. It's saying that  
6 Bank of America told BlackRock to have AIG offer them a  
7 price and we're talking at least three levels of hearsay  
8 at least two of which are not related to the government.

9 THE COURT: Well, I'm going to overrule the  
10 objection. Plaintiffs' Trial Exhibit 348 is admitted.

11 **(Plaintiff's Exhibit Number 348 was admitted into**  
12 **evidence.)**

13 BY MR. BOIES:

14 Q. Now, this is an e-mail that you received; correct,  
15 sir?

16 A. Yes.

17 Q. And as of November 6, 2008 at 5:59 p.m., you were  
18 aware that Bank of America had expressed interest through  
19 BlackRock in having AIG offer Bank of America a price to  
20 take Bank of America out of the CDS transaction that  
21 Bank of America had with AIG; correct?

22 A. Yes.

23 Q. And was this request from Bank of America followed  
24 up?

25 A. I don't recall. It wasn't followed up by me.

1 That's certain. I'm certain of that.

2 Q. And insofar as you were aware, no one ever told  
3 you they had followed this up at all; correct?

4 A. I'm not aware.

5 Q. Now, you talked about the fact that the profits  
6 from Maiden Lane III were going to be split two-thirds to  
7 the Federal Reserve Bank of New York and one-third to  
8 AIG; correct?

9 A. Yes.

10 Q. Let me ask you to look at a demonstrative exhibit  
11 that was prepared earlier, if it's on this pad, which it  
12 apparently is not, so let me try to construct it up.  
13 ML III related to \$62.1 billion of notional value of  
14 CDSs; correct?

15 A. Yes.

16 Q. And with respect to those CDSs, AIG had already  
17 posted over \$30 billion; correct, sir?

18 A. Approximately, yes.

19 Q. Do you know what that amount was?

20 A. I don't know the precise amount if you're asking  
21 me.

22 Q. Do you recall that they had posted about  
23 \$35 billion with a \$2.5 billion of that was viewed as  
24 excess so that there ended up to be \$32.5 billion?

25 A. Yes.

1 Q. And do you recall that AIG was going to put in  
2 another \$5 billion in equity?

3 A. Yes.

4 Q. And that there was then going to be a  
5 Federal Reserve loan; is that correct?

6 A. Yes.

7 Q. And do you recall how much that loan was?

8 A. I do not.

9 Q. Do you recall that that loan was about  
10 \$24.3 billion?

11 A. That looks about right.

12 Q. Now, AIG here had put in about \$37.5-38 billion;  
13 correct?

14 A. Yes.

15 Q. And that was the first loss; correct?

16 A. When you say that, which in particular?

17 Q. The 37 -- in other words, AIG bore the risk of  
18 loss up to the amount that they had put in; correct?

19 A. Which would be the \$5 billion.

20 Q. Well, they already put in 32.5 to 33; correct?

21 A. They had borrowed that amount from the  
22 New York Fed, so that -- that amount would not be part of  
23 the structure.

24 Q. They they had already borrowed what amount from  
25 the New York Fed?

1           A. Well, in order to fund those contributions, the 32  
2 and a half billion were the collateral postings that were  
3 borrowed from the New York Fed in order to make the  
4 collateral payments.

5           Q. Let me just try to be sure I understand what  
6 you're saying.

7                     You're saying that \$32.5 billion had been borrowed  
8 by AIG from the New York Fed?

9           A. That is correct.

10          Q. When did they borrow that money, sir?

11          A. In order to meet the collateral calls.

12          Q. When did that borrow that money, sir?

13          A. Throughout the period of the prior month leading  
14 up to Maiden Lane III.

15          Q. Is it your testimony that this \$32.5 billion,  
16 which may be 33 I don't want to -- I don't want to  
17 represent that this is exact to the December analytical  
18 point -- but this 32 and a half to 33 and a half billion  
19 dollars that AIG had posted for the ML III \$62.1 billion  
20 of notional value, it's your testimony that 32.5 to 33  
21 billion dollars that AIG had posted had all been borrowed  
22 from the New York Fed?

23          A. Yes. Largely.

24          Q. When you say yes, largely, is it your testimony  
25 that all had been borrowed or not?

1 A. Yes.

2 Q. Your testimony is that all had been borrowed.

3 And is your testimony that all -- that all had  
4 been borrowed after September 22 or after September 16,  
5 2008?

6 A. Yes.

7 Q. Is it your testimony that prior to September 16,  
8 2008, AIG had not had to post any collateral for this  
9 \$62.1 billion notional value?

10 A. I can't speak for what AIG had to post prior to  
11 9-16-2008.

12 Q. Well, sir, the \$62.1 billion is the total notional  
13 value of all of the CDSs that were the subject of ML III;  
14 correct?

15 A. That is correct.

16 Q. And what you've testified a moment ago is that AIG  
17 had posted 32.5 to 33.5 billion dollars prior to ML III;  
18 correct?

19 A. Yes.

20 Q. And you've testified that that all came from the  
21 Federal Reserve Bank after September 16, 2008; correct?

22 A. Yes. Well although technically I testified  
23 largely, but all, largely, is not a distinction of the  
24 word.

25 Q. Well the, I think, sir did you not testify

1 largely?

2 A. Yes.

3 Q. And I asked you whether it was all and you said it  
4 was all?

5 A. Yes, I did.

6 Q. Okay. Now, that says that as of September 16, AIG  
7 had not posted any collateral for these CDSs; right?

8 A. No. I don't -- I don't believe that is a correct  
9 inference.

10 Q. Well, they'd only posted 32.5 approximately as of  
11 ML III; correct?

12 A. Correct that's correct.

13 Q. And that's all that was posted for these CDSs;  
14 correct?

15 A. That's correct.

16 Q. And you're saying this was all posted after  
17 September 16; correct?

18 A. Yes.

19 Q. So is it your testimony that they all -- they  
20 posted some other money before?

21 A. Again, I can't speak for what was posted before or  
22 not, but I presume that AIG would have had to have made  
23 collateral calls prior to the arrival of the  
24 Federal Reserve, but I can't speak to what those amounts  
25 are or what -- but whether they were even made or whether

1 they -- what conversations happened with the  
2 counterparties.

3 Q. But it's your testimony that you never  
4 investigated how much AIG had posted in collateral prior  
5 to the credit facility?

6 A. I never investigated how much collateral was  
7 posted prior to the credit facility, but based on the  
8 meeting that we attended on that Friday and based on the  
9 liquidity projections that were provided, that was the  
10 basis upon which we understood the nature of the  
11 collateral outflows that Aighad to meet.

12 Q. When you say based on the meeting that we attended  
13 that Friday?

14 A. That was Friday, September 12, 2008.

15 Q. And the liquidity projections that you were  
16 provided, those were the liquidity projections you were  
17 provided on September 12?

18 A. I don't know if we were provided them on  
19 September 12, but in and around that weekend.

20 Q. And did those liquidity projections show that AIG  
21 had posted collateral for CDSs?

22 A. I can't recall. But I know from the discussions  
23 with AIG, they had explained collateral outflows arising  
24 from derivative positions, collateral postalings  
25 associated with derivative positions.

1 Q. And those collateral outflows that you describe  
2 are outflows where AIG was posting collateral for CDSs;  
3 correct?

4 A. Yes.

5 Q. And you understood on September 12 that the CDS  
6 market had frozen, crashed; correct?

7 A. Yes.

8 Q. And you understood that the prices that were in  
9 existence in the CDS financial market as of September 12  
10 were very much depressed; correct?

11 A. Yes.

12 Q. And you understood that when those prices became  
13 depressed or when people alleged that they were  
14 depressed, there was a demand to put up collateral;  
15 correct?

16 A. Yes.

17 Q. And doesn't that -- didn't that lead you to  
18 understand, sir, that AIG had posted collateral for these  
19 CDSs before there was any loan? ?

20 A. Based on what the company had told me, it was  
21 clear they were having issues trying to meet those  
22 collateral calls, so again I don't know what -- what  
23 exactly they posted or how they posted, but my  
24 understanding was on that Friday that there had been some  
25 collateral calls made to the company. I can't speak



1 to -- I guess the point I'm trying to make is, I can't  
2 speak to whether or not the company actually met those  
3 calls.

4 Q. And just to be clear, I'm not talking about the  
5 collateral calls that people were making on September 12  
6 and 13.

7 A. Okay.

8 Q. I'm talking about whether it was your  
9 understanding that AIG had posted collateral, already  
10 posted collateral, prior to getting any money from the  
11 Federal Reserve.

12 A. And again, as I testified, at that meeting, I did  
13 not know what arrangements AIG had made prior to that  
14 meeting around collateral postings.

15 Q. Let me just ask a simple yes-or-no question.

16 A. Okay.

17 Q. I understand that you don't know all the  
18 collateral postings and you may not have an estimate.  
19 I'm just asking you a simple question.

20 Did you understand that prior to getting any money  
21 from the Federal Reserve, AIG had posted collateral for  
22 the CDSs that were the subject of ML III?

23 MR. SCARLATO: Your Honor, we object. Asked and  
24 answered.

25 THE COURT: Overruled.

1 BY MR. BOIES:

2 Q. Just yes or no?

3 A. I'm sorry. Can you repeat your question?

4 Q. Sure.

5 Did you understand that prior to getting any money  
6 from the Federal Reserve, AIG had posted collateral for  
7 the CDSs that were the subject of ML III? That's yes, no  
8 or I don't know.

9 A. I don't know.

10 Q. Okay. Would you agree with me that if AIG had  
11 posted collateral before it got any money from the  
12 Federal Reserve, then the total amount that AIG had  
13 posted for the ML III CDSs could not not have come from  
14 the Federal Reserve? Would you agree with that?

15 A. I'm sorry. Your question is if -- can you repeat  
16 your question again. I'm sorry.

17 Q. Sure.

18 If AIG had posted collateral before it got any  
19 money from the Federal Reserve, then the total amount  
20 that AIG had posted for the CDSs could not have come from  
21 the Federal Reserve; would you agree with that?

22 A. Yes.

23 Q. Okay.

24 A. Yes.

25 Q. Now, with respect to the amount that AIG had

1 posted, to the extent it had come from the  
2 Federal Reserve, that was a loan; correct?

3 A. Correct.

4 Q. That AIG was absolutely obligated to pay back;  
5 correct?

6 A. Yes.

7 Q. And which AIG did pay back; correct?

8 A. Yes.

9 Q. Where did the one-third/two-thirds split come  
10 from? Who decided that the Federal Reserve would take  
11 two-thirds of the profits and AIG would take one-third of  
12 the profits?

13 A. I don't know.

14 Q. Did anybody ever give you any explanation for that  
15 at all?

16 A. No.

17 MR. BOIES: Your Honor, I pass the witness.

18 THE COURT: All right. Thank you, Mr. Boies.

19 Mr. Scarlato, do you have any recross?

20 MR. SCARLATO: Briefly, Your Honor. Yes.

21 THE COURT: Okay. You need to be limited to this  
22 Maiden Lane III subject.

23 MR. SCARLATO: Yes, Your Honor.

24 - - - - -

25 **REXCROSS-EXAMINATION**

1 BY MR. SCARLATO:

2 Q. Good to see you again, Mr. LaTorre?

3 A. Good morning.

4 Q. Just quickly on the demonstrative here,  
5 Mr. LaTorre, the 32 -- approximately 32 billion dollars  
6 number that Mr. Boies was just asking you about?

7 A. Uh-huh.

8 Q. Could you explain to the Court what would have  
9 happened to that \$32 billion in collateral postings if  
10 Maiden Lane III transaction had not occurred?

11 A. Well, the -- if the -- if Maiden Lane III had not  
12 occurred, the company would have failed and the  
13 collateral postings either would have become or the calls  
14 for collateral and potentially subsequent postings would  
15 have become larger and ultimately the counterparties  
16 would have kept the collateral in the event of the firm's  
17 failure.

18 Q. So to be clear, that \$32.5 billion was the  
19 collateral you're referring to?

20 A. That's right. So the 32.5 billion was the  
21 collateral up to the point that Maiden Lane III was  
22 initiated and my testimony is that had Maiden Lane III  
23 not been completed, that collateral call would likely --  
24 could have been larger and/or in the event of the  
25 company's failure, the counterparties would have retained

1 that collateral.

2 Q. The 32.5.

3 A. That's correct, 32.5.

4 Q. Okay. If you can turn now -- Mr. Boies just  
5 showed you PTX 348 in the black binder.

6 A. I see the exhibit.

7 Q. And I believe Mr. Boies asked you about the  
8 Bank of America expressing interest through BlackRock?

9 A. Yes.

10 Q. Do you recall -- well, let me ask this. Do you  
11 recall at the time at the date of this e-mail November 6  
12 what your responsibilities was to talk to BlackRock or  
13 AIG about contacts with other counterparties?

14 A. I did not have any responsibility to do so.

15 Q. Do you know who did have that responsibility?

16 A. I -- I don't know. I owe wasn't clear to me who  
17 was responsible for discussions with AIG on the  
18 counterparties.

19 Q. Can you turn now to PTX 287, if I can read my  
20 handwriting, which is another document Mr. Boies handed  
21 you individually. I don't think it's in the binder.

22 It's a one-page e-mail?

23 A. Oh, yes. I see this one.

24 Q. Do you have it?

25 A. Yes.

1 Q. It says on the bottom?

2 A. Yep, I do.

3 Q. The date of this e-mail, PTX 287 is October 7. Do  
4 you recall what BlackRock who they were advising around  
5 that time?

6 MR. BOIES: Objection, Your Honor. Foundation.

7 THE COURT: Sustained.

8 BY MR. SCARLATO:

9 Q. Mr. LaTorre, do you recall that BlackRock at one  
10 point represented the New York Fed with respect to  
11 Maiden Lane III?

12 MR. BOIES: Objection. Leading. I don't think  
13 counsel ought to lead in this context.

14 THE COURT: Sustained.

15 BY MR. SCARLATO:

16 Q. Mr. LaTorre, remind the court when you started  
17 working on the Maiden Lane III transaction.

18 A. Approximately late October.

19 Q. And what role, if any, at that time did BlackRock  
20 have in your working with you on that project?

21 A. Well, upon my arrival, there were discussions with  
22 mostly individuals with the New York Fed and then  
23 subsequently BlackRock around the structure and E&Y.

24 Q. So -- okay. What -- and Mr. LaTorre you  
25 personally, what role did you have in AIG's attempts to

1 resolve its CDS exposure around that time?

2 A. I was not involved in any of the discussions that  
3 AIG had with its counterparties to attempt to resolve  
4 those issues.

5 Q. Okay. Mr. LaTorre, if I could turn to some of  
6 your testimony from last Friday, your discussions with  
7 Mr. Boies Friday afternoon.

8 I believe you gave some testimony regarding the  
9 ML III counterparty disclosure issue. Do you recall  
10 that?

11 A. Yes.

12 Q. Do you recall telling Mr. Boies that disclosure  
13 would have prejudiced AIG but that AIG never specifically  
14 told you that?

15 A. Yes. Because of the -- the prejudice would have  
16 arisen from AIG's equity stake in the Maiden Lane III  
17 structure.

18 Q. Could you explain that why would AIG have been  
19 prejudiced by the release of?

20 A. Because ultimately the value of AIG's equity  
21 interest was driven by the value of the underlying CDOs,  
22 so to the extent that their sale would not realize their  
23 intrinsic worth, in other words, to the extent that the  
24 CDOs had to be sold at a discount, then AIG being the  
25 equity holder in the first loss position was

1 subsequent -- was vulnerable to the -- to losses up to  
2 5 billion as the consequence of those distressed sales.

3 Q. And what responsibility, if any, did you have in  
4 contacting AIG about whether to disclose a counterparties  
5 names?

6 A. I don't recall having any conversations with AIG  
7 around counterparty disclosures.

8 Q. Do you recall who did have that responsibility?

9 A. I -- I don't. I don't recall exactly. I -- I  
10 don't.

11 Q. Okay. Finally, Mr. LaTorre, if you can turn to  
12 PTX 718, which Mr. Boies handed you on Friday, the  
13 one-page, the counterparty script?

14 A. Yes, I see it.

15 Q. Do you have it?

16 A. I do see it.

17 Q. Now, he asked you a couple questions about  
18 voluntary -- the statement of voluntary -- let me just  
19 read it. Of course, participation is entire voluntary.  
20 Can you describe what was voluntary?

21 A. Effectively what was voluntary was participating  
22 in the sale of the CDOs and termination of the CDS. .

23 Q. Okay. Did this script have anything to do with  
24 the discussions regarding concessions?

25 A. Yes.



1 Q. Okay. And can you explain that, what -- what that  
2 was?

3 A. Well, the relevance of this script to the  
4 discussion on concessions was it provided a rationale for  
5 why, A, we believed that concessions were appropriate  
6 and, B, why we were strenuous in our pursuit of them, so,  
7 for example, in the first paragraph of, you see a  
8 reference to how the financial system benefited greatly  
9 from the government's actions to support AIG in times of  
10 distress.

11 Q. If you could turn to the third paragraph, it  
12 starts consisting with the economics of the underlying  
13 transaction, do you see that?

14 A. I see that.

15 Q. You don't have to read it and I won't read it but  
16 can you just describe for the Court what information was  
17 intended to be conveyed through that part of the script?

18 A. In that third paragraph.

19 Q. Correct.

20 A. Essentially what we're conveying to the  
21 counterparties is that they derived considerable benefits  
22 from the Federal Reserve support of AIG and as a  
23 consequence, that benefit should be factored in to the  
24 termination price or in other words, the total  
25 consideration, the total price for tearing up the CDS and

1 delivering the CDOs. In other words, in simple English,  
2 we think they should consider a concession.

3 Q. And Mr. LaTorre, just on a somewhat different  
4 topic, when you started working on ML III, did you  
5 have -- which I believe you said was in late October or  
6 thereabouts?

7 A. Yes.

8 Q. Did you have an understanding at that time about  
9 who BlackRock represented?

10 A. I -- I did not have an understanding at that time  
11 who BlackRock represented.

12 Q. Do you know if they represented anyone other than  
13 the New York Fed with respect to Maiden Lane III at any  
14 time?

15 A. I'm sorry.

16 Q. At any time. If BlackRock represented anyone  
17 other than the New York Fed at any time.

18 A. I mean, it was clear to me as we completed the  
19 transaction that ultimately BlackRock represented us, but  
20 prior to -- I don't know exactly when that happened. Is  
21 that -- does that answer your question.

22 Q. Right. So was there any other time that BlackRock  
23 represented somebody other than the New York Fed?

24 A. I don't imagine there was when I arrived.

25 MR. SCARLATO: No further questions, Your Honor.

1 THE COURT: All right. Mr. LaTorre, thank you  
2 very much for your testimony in this matter. You are  
3 excused.

4 THE WITNESS: Thank you, Your Honor.

5 MR. BOIES: Your Honor, the plaintiffs now call  
6 Susan McLaughlin to the stand.

7 THE COURT: All right.

8 - - - - -

9 Whereupon --

10 **SUSAN McLAUGHLIN**

11 a witness, called for examination, having been first duly  
12 sworn, was examined and testified as follows:

13 **DIRECT EXAMINATION**

14 BY MR. BOIES:

15 Q. Good morning --

16 A. Good morning.

17 Q. -- Ms. McLaughlin.

18 My name is David Boies, and although we haven't  
19 met, you understand that I represent the plaintiffs in  
20 this action?

21 A. I do.

22 Q. What is your current position?

23 A. I'm currently a senior advisor and senior  
24 vice president in the markets group of the New York Fed.

25 Q. And what was your position in September of 2008?

1           A. I was the senior officer with oversight  
2 responsibility for the discount window leading a function  
3 that was called financial management and discount window.

4           Q. Financial management did you say?

5           A. Yes. And discount window.

6           Q. And discount window.

7           A. Uh-huh.

8           Q. And when did you first become involved with AIG or  
9 issues relating to AIG?

10          A. So I think I was copied on some e-mails over the  
11 weekend of September 13-14, but I didn't really become  
12 involved with the loan, which is really the way in which  
13 I was involved, until Tuesday, the 16th of September.

14          Q. And commencing on Tuesday, the 16th, what were  
15 your responsibilities with respect to the AIG credit  
16 facility?

17          A. So in general my responsibilities for any type of  
18 emergency lending that we were doing in that period was  
19 to oversee the operationalization of the loan of cash as  
20 well as managing the pledge of collateral, and managing  
21 that meaning ensuring that there was a price assigned to  
22 assets and that we were applying a haircut to determine  
23 how much collateral would need to be pledged by the  
24 borrower.

25          Q. What do you mean by operationalization?

1           A. So there's a whole series of steps that we would  
2 go through just operationally to send cash to the  
3 borrower and particularly in the case of AIG which was  
4 not a bank and so wasn't -- didn't have kind of the  
5 normal infrastructure set up, there was a process that we  
6 needed to go through to actually send the cash. ?

7           Q. And when you say managing the pledge of  
8 collateral, can you explain what you mean?

9           A. Yes. So generally the bank does not lend unless  
10 we are adequately secured by collateral, and so one of  
11 the teams that reported to me was responsible for making  
12 sure that we had a valuation for the collateral and were  
13 applying haircuts and that we had enough lendable value  
14 of collateral to make the loan.

15           Q. Now, you say generally the bank does not lend  
16 against collateral unless it is adequately secured.

17                   In fact, the bank is prohibited from making loans  
18 that are not secured to its satisfaction; correct?

19           A. That --

20           MS. ACEVEDO: I'm going to --

21           THE WITNESS: I'm not aware of what the law says  
22 on that.

23           THE COURT: Hang on. We have an objection.

24           MS. ACEVEDO: I'm just going to object to the  
25 extent that that calls for a legal conclusion,

1 Your Honor.

2 THE COURT: Oh. Overruled. I'll take the answer.

3 Go ahead.

4 THE WITNESS: I'm not sure. I know that we were  
5 always told make sure you're adequately secured.

6 BY MR. BOIES:

7 Q. Now, did your responsibilities include  
8 establishing an on-site team at AIG?

9 A. No, they did not.

10 Q. Let me ask you to look at Plaintiffs' Trial  
11 Exhibit 102, which is in your book, and which I would  
12 offer.

13 MS. ACEVEDO: We have no objection, Your Honor.

14 THE COURT: Plaintiffs' Trial Exhibit 102 is  
15 admitted.

16 **(Plaintiff's Exhibit Number 102 was admitted into**  
17 **evidence.)**

18 THE WITNESS: Yes.

19 BY MR. BOIES:

20 Q. This is an e-mail from you on September 16, 2008  
21 at 10:36 p.m.; correct?

22 A. That's right.

23 Q. And the subject is tomorrow. Do you see that?

24 A. Yes.

25 Q. And you write, "We will establish an on-site

1 presence at AIG to monitor and protect our interests as  
2 lender and equity stakeholder. (I see we own 80 percent,  
3 though I haven't read the docs and am not sure how this  
4 goes)."

5 Do you see that?

6 A. Yes, I do.

7 Q. And when you said we will establish an on-site  
8 presence at AIG, the we refers to the New York Fed;  
9 correct?

10 A. That's correct.

11 Q. And that on-site presence was in fact set up  
12 starting on September 16, 2008; correct?

13 A. That's my recollection. Yes.

14 Q. And so your responsibilities included setting up  
15 an on-site team at AIG; correct?

16 A. No, they did not. Someone else set up the team.  
17 I was asked to furnish one staff member, which is  
18 referred to in this e-mail, to serve as the liaison  
19 between the team and our valuation unit.

20 Q. Your group was the bank supervision group;  
21 correct?

22 A. No. Markets group.

23 Q. That was the markets group?

24 A. Uh-huh.

25 Q. And was the bank supervision group, according to

1 your testimony, the group that set up this on-site team?

2 A. Yes.

3 Q. And you had one member of that team.

4 A. I was asked to furnish one person to serve as  
5 liaison between the team and our valuation team at our  
6 site.

7 Q. And was the person that you furnished on-site at  
8 AIG or not?

9 A. I don't remember if he actually went on-site. I  
10 do know that he was in contact regularly with the team,  
11 but I just don't remember if he was actually there  
12 on-site.

13 Q. Now, you testified that you had responsibility for  
14 managing the pledge of collateral for any type of  
15 emergency lending. Do you recall that?

16 A. Yes.

17 Q. And in 2008, the loans and credit facilities that  
18 were made available pursuant to 13(3) were all classified  
19 as emergency lending; correct?

20 A. That's right.

21 Q. Was there any emergency lending that took place  
22 during 2008 other than 13(3) lending?

23 A. No. They are one and the same.

24 Q. One of the emergency lending facilities that you  
25 had responsibility for managing the pledge of collateral



1 for was the Primary Dealer Credit Facility; correct?

2 A. Yes.

3 Q. And the Primary Dealer Credit Facility was set up  
4 in March of 2008; correct?

5 A. That's right.

6 Q. And you would do analyses on a periodic basis to  
7 be sure that there was adequate collateral to support the  
8 loans that were made pursuant to that credit facility;  
9 correct?

10 A. Yes.

11 Q. And you testified that there were haircuts that  
12 were applied.

13 A. Yes.

14 Q. And the haircuts that were applied ranged from  
15 what to what with respect to the PDCF collateral?

16 A. In the period before September 14, so when the  
17 facility was initially established? I don't recall  
18 exactly, but I think certainly anywhere from two to  
19 3 percent to I want to say 7-10, 15 percent, somewhere in  
20 that area. This is for the period when only investment  
21 grade marketable securities were being accepted.

22 Q. And then as you've indicated, things changed on  
23 September 14; correct?

24 A. Yes.

25 Q. And a broader amount of collateral was accepted;

1 correct?

2 A. Yes.

3 Q. And at that point, what was the haircut, as you  
4 recall it?

5 A. And again, these are generally not public except  
6 in the case of one borrower that was disclosed through  
7 another process, but I think they went as high as  
8 20-25 percent in that period after September 14,  
9 depending again on the asset type.

10 Q. Let me ask you to look at Plaintiffs' Trial  
11 Exhibit 93, which I will offer, 293. It's in your book?

12 MS. ACEVEDO: I'm sorry 293.

13 MR. BOIES: 293.

14 THE WITNESS: Oh, sorry. I thought you said 93.

15 MS. ACEVEDO: We have no objection, Your Honor.

16 THE COURT: Plaintiffs' Trial Exhibit 293 is  
17 admitted.

18 **(Plaintiff's Exhibit Number 293 was admitted into**  
19 **evidence.)**

20 BY MR. BOIES:

21 Q. Now, this is an e-mail that you received together  
22 with an attachment; is that correct?

23 A. Yes. That's right.

24 Q. And the attachment is a financial summary and  
25 statement of condition and collateral summary; is that

1 correct?

2 A. Yes, that's correct.

3 Q. And this was prepared periodically; is that  
4 correct?

5 A. Not -- as I recall, this was prepared for the  
6 specific briefing or Charles Wait.

7 Q. Let me ask you to turn to page 7.

8 A. Sure.

9 Q. Where it says collateral in the lower right --  
10 left-hand corner, collateral composition across all PDCF  
11 participating dealers. Do you see that?

12 A. Yes.

13 Q. And that shows the percentage of various kinds of  
14 collateral that are -- have been posted; is that correct?

15 A. Yes.

16 Q. And at that point equities represented  
17 40.47 percent; is that correct?

18 A. Yes.

19 Q. And then another 23.06 percent are referred to as  
20 unknown rating. Do you see that?

21 A. Yes, I do.

22 Q. Some of the materials both in the unknown category  
23 and in the rated categories consisted of asset-backed  
24 securities?

25 A. Yes, they did.

1 Q. And those asset-backed securities included  
2 securities backed by subprime residential mortgages;  
3 correct?

4 A. I believe so. Yes.

5 Q.

6 THE COURT: And who is Charles Wait.

7 THE WITNESS: Charles Wait was a board member at  
8 the New York Fed and he was the head of the audit and  
9 operational risk committee at the time.

10 THE COURT: Thank you.

11 BY MR. BOIES:

12 Q. And let me ask you to look next at Plaintiffs'  
13 Trial Exhibit 59, which I would offer.

14 MS. ACEVEDO: We have no objection, Your Honor.

15 THE COURT: Plaintiffs' Trial Exhibit 59 is  
16 admitted.

17 **(Plaintiff's Exhibit Number 59 was admitted into**  
18 **evidence.)**

19 BY MR. BOIES:

20 Q. This is a Federal Reserve press release dated  
21 September 14, 2008 that was put out by the  
22 Federal Reserve, announcing the broadening of the PDCF  
23 collateral that you referred to earlier; correct?

24 A. That's correct.

25 Q. And at the top of page 3, it states these changes

1 represent a significant broadening in the collateral  
2 accepted under both programs and both programs is  
3 referring to the PDCF and the TSLF; correct?

4 A. Yes, that's right.

5 Q. And should enhance the effectiveness of these  
6 facilities in supporting the liquidity of primary dealers  
7 and financial markets more generally"; correct?

8 A. Correct.

9 Q. To what extent did borrowings under the PDCF  
10 increase following September 14?

11 A. So I don't remember the exact figures, but I do  
12 recall that the borrowing did increase for at least some  
13 primary dealers.

14 Q. And would it be fair to say that the borrowings on  
15 and after September 14 increased very sharply?

16 A. I mean, it's hard for me to say very sharply only  
17 because I just don't remember the numbers, but certainly  
18 they increased.

19 Q. Have you seen a chart showing the amount of  
20 increase?

21 A. Not recently.

22 Q. When you did see a chart, did it look a little bit  
23 like a hockey stick, it just shot right up?

24 A. That -- that sounds -- that sounds familiar.

25 Q. Now, let me ask you to look at Plaintiffs' Trial

1 Exhibit 1211, which I would offer.

2 MS. ACEVEDO: Your Honor, we're going to object on  
3 foundation grounds. The witness is not identified as  
4 being affiliated with this exhibit and it's unclear as to  
5 what the relationship is between the exhibit and the  
6 subject matter.

7 THE COURT: Mr. Boies?

8 MR. BOIES: Your Honor, this comes from the  
9 Federal Reserve Web site. This is -- this is statistics  
10 that are -- that come off the Web site and it is  
11 statistics that relate to the subject for which this  
12 witness is responsible.

13 MS. ACEVEDO: Your Honor, I don't think that  
14 Mr. Boies should testify. I think he should just  
15 lay a proper foundation.

16 THE COURT: Well, I think this is  
17 cross-examination and I think since it is a  
18 Federal Reserve document, the witness can simply tell us  
19 whether she knows anything about it.

20 MS. ACEVEDO: Thank you, Your Honor.

21 THE COURT: I will admit Plaintiffs' Trial  
22 Exhibit 1211.

23 **(Plaintiff's Exhibit Number 1211 was admitted into**  
24 **evidence.)**

25 BY MR. BOIES:

1 Q. This is headed Collateral Margins for the  
2 Primary Dealer Credit Facility March 17, 2008 to  
3 February 1, 2010.

4 Do you see that?

5 A. I do.

6 Q. Are you familiar with this?

7 A. I'm not familiar with this particular document.

8 Q. Are you familiar with the information contained in  
9 the document?

10 A. I am.

11 Q. And who prepares this information?

12 A. I honestly do not know. I'm not sure whether this  
13 was prepared by the New York Fed or the board. Both of  
14 those would have had this information.

15 Q. And you understand what a collateral margin is;  
16 correct?

17 A. I do.

18 Q. Is that related to what you refer to as a haircut?

19 A. Yes. We use the terms interchangeably.

20 Q. Okay. And what this would show just for the top  
21 line is that the haircut for Treasury bills on August 3,  
22 2009 was 1 percent; correct?

23 A. That's correct.

24 MS. ACEVEDO: Your Honor, I'm going to object  
25 again. She testified that she hasn't seen this document

1 before she doesn't know who prepared it and she's not  
2 familiar with the information.

3 THE COURT: Overruled. I'm going to allow her  
4 answer.

5 THE WITNESS: It does appear to show a 1 percent  
6 haircut for Treasury bills.

7 BY MR. BOIES:

8 Q. Now, with respect to auction rate notes, the very  
9 last one or near the last on page 3, do you see the  
10 heading Auction Rate Notes?

11 A. I do.

12 Q. And investment grade rated, which is BBB minus or  
13 Baa3 or BBB minus or better, the haircut as of  
14 September 15, 2008, the day after the expansion of  
15 collateral, was 6.5 percent; correct?

16 A. It appears to be 6.5 percent, yeah.

17 Q. And that was true for noninvestment grade rated  
18 auction notes as well; correct?

19 A. It appears to be, yeah.

20 Q. And the haircut on September 15, 2008 for equities  
21 was also 6.5 percent; correct?

22 A. I'm trying to locate -- okay.

23 Q. It's at the very bottom. It's just before the end  
24 on page 3.

25 A. Yes. It does indicate a haircut of 6.5 percent.



1 Q. And if you go back to the auction rate notes,  
2 there is no haircut shown for not investment grade rated  
3 auction notes prior to September 15, 2008 and that reason  
4 would be because they were not accepted prior?

5 A. That's correct.

6 Q. To September 14; correct?

7 A. That's correct.

8 Q. Now, with respect to money market instruments,  
9 commercial paper, both investment grade and not  
10 investment grade rated, there's a haircut of 6.5 percent;  
11 correct?

12 A. That's what this shows, yeah.

13 Q. And also on page 3, do you see where it says  
14 asset-backed securities including CDOs, CBOs and CLOs?

15 A. Yes.

16 Q. And investment grade rated asset-backed securities  
17 have a haircut of 6.5 percent; correct?

18 A. That's what this shows, yes.

19 Q. And CDOs that are not investment grade rated have  
20 a haircut of 12.3 percent; correct?

21 A. That's -- yeah, that's what this shows.

22 Q. And were you responsible for determining the  
23 amounts of these haircuts or collateral margins?

24 A. My team was responsible for determining the  
25 haircuts, yes.

1 Q. And I take it that in September, after  
2 September 14, 2008, you believed that these were  
3 reasonable haircuts or collateral margins to apply to  
4 these securities; correct?

5 A. Well, I mean, I think this is an incomplete  
6 document because what it doesn't reflect is some  
7 variations in haircuts that we charged for specific  
8 bears. Again, that's not public information, which may  
9 be why it's not shown here. So I think -- I think there  
10 was a range. I don't think this shows the full picture.  
11 But certainly if these are the actual haircuts, then we  
12 would have stood behind that at the time.

13 Q. You don't have any reason to believe these were  
14 not the actual haircuts, do you?

15 A. I don't know. It's just very hard for me to  
16 remember the exact numbers because again we did have a  
17 number of changes and I just don't know where this has  
18 come from.

19 Q. Now, the PDCF loans, were they recourse or  
20 nonrecourse?

21 A. They were recourse I believe.

22 Q. Were all of the PDCF loans as you understood it  
23 recourse loans?

24 A. I believe so.

25 Q. And when you say that there were company-specific

1 haircuts, did those company-specific haircuts apply to  
2 all categories of collateral or only certain categories  
3 of collateral?

4 A. I think, if I recall correctly, that the two cases  
5 I'm aware of they applied to nongovernment securities.

6 Q. And what are the two cases you're familiar with?

7 A. So again this is not public, but Lehman was one of  
8 the firms and there was another primary dealer that was  
9 another.

10 Q. Lehman was one.

11 A. Yes.

12 Q. When did Lehman become a firm that had a  
13 particular haircut?

14 A. That, I do not recall exactly. I know that there  
15 was some discussion about it in the summer of 2008, and I  
16 cannot remember exactly when those specific haircuts  
17 would have been applied.

18 Q. Who was the other firm other than Lehman?

19 A. Again, this is not public, but it was another  
20 primary dealer, Cantor Fitzgerald.

21 Q. Now, was there ever a company-specific haircut  
22 applied to Morgan Stanley?

23 A. Well, that's a difficult question because on  
24 September 21, the PDCF facility was further expanded for  
25 three firms of which Morgan Stanley was one, to accept

1 yet a broader range of collateral with its own haircuts,  
2 so in that sense, I think those three companies had more  
3 securities that they could pledge and did receive  
4 specific haircuts for those that were not part of PDCF.

5 Q. Let me be sure I understand what you're saying.

6 There was an expansion, a broadening of the  
7 collateral that was accepted for PDCF firms generally?

8 A. On the 14th.

9 Q. On September 14.

10 A. Yes that's right.

11 Q. And then on September 21, the collateral that  
12 would be accepted for a PDCF loan was broadened further  
13 for three firms?

14 A. That's right.

15 Q. And those three firms were what?

16 A. Morgan Stanley, Goldman Sachs and Merrill Lynch.

17 Q. And was the haircut that was applied to that  
18 broadened collateral different from the haircut that  
19 would have been applied generally to that collateral for  
20 other firms?

21 A. So in many cases the assets that were accepted  
22 under that broader program that began on September 21  
23 were foreign currency denominated securities and as such  
24 had a higher haircut to capture the foreign exchange  
25 risk. .

1 Q. Now, other than a higher haircut or collateral  
2 margin for securities that had a foreign exchange risk,  
3 was there any other special or additional haircut for  
4 Morgan Stanley, Goldman Sachs or Merrill Lynch?

5 A. I don't really recall exactly what the haircuts  
6 were. I know that we had talked about the fact that they  
7 were pledging a much broader range of equities, including  
8 smaller cap equities, which often would receive a higher  
9 haircut. What I don't remember is exactly the levels at  
10 which we set those.

11 Q. Do you recall whether there were any different  
12 levels?

13 A. I don't recall.

14 Q. Okay. Now, let me turn to the subject of interest  
15 rates?

16 A. Yes.

17 Q. Do you have any understanding of how the interest  
18 rate charged AIG for its credit facility, its \$85 billion  
19 credit facility, was arrived at?

20 A. I do not. I was not part of that decision.

21 Q. Are you aware that there was an 8.5 percent charge  
22 on undrawn funds for that facility?

23 A. That sounds familiar.

24 Q. Are you aware of any other instance in which the  
25 Federal Reserve has placed an 8.5 percent charge on

1 undrawn funds in connection with a credit facility?

2 A. I am not sure. I'm not sure I'm completely  
3 familiar with the terms of all of the 13(3) programs.

4 Q. With respect to the 13(3) programs for which you  
5 were responsible for managing the collateral in 2008,  
6 were any of those facilities facilities that had an  
7 8.5 percent charge on undrawn funds?

8 A. No. So the PDCF did not, the TSLF did not.

9 Q. Let me ask you to look at Plaintiffs' Trial  
10 Exhibit 145, which I would offer.

11 MS. ACEVEDO: We have no objection, Your Honor.

12 THE COURT: Plaintiffs' Trial Exhibit 145 is  
13 admitted.

14 **(Plaintiff's Exhibit Number 145 was admitted into**  
15 **evidence.)**

16 BY MR. BOIES:

17 Q. This is an e-mail from September 18, 2008 at  
18 12:01 p.m. from you to a number of people. Do you see  
19 that?

20 A. Yes, I do.

21 Q. And the subject is on pricing AIG loan. Do you  
22 see that?

23 A. Yes.

24 Q. And you're talking about the interest rate there;  
25 correct?

1 A. Yes.

2 Q. And you are responding at least in part to an  
3 e-mail from Scott Sherman earlier that day; correct?

4 A. That's correct.

5 Q. And Mr. Sherman has or had criticized the terms of  
6 the loan and in particular the interest rate as being too  
7 high and said that could have a deleterious effect;  
8 correct?

9 A. If I may, that's not what Scott's opinion was. He  
10 was actually quoting what he heard from several market  
11 participants. Scott was a trader analyst on our desk and  
12 was responsible to monitor developments in the market  
13 realtime.

14 Q. Well, what he says at the beginning is I've heard  
15 from several market participants on this. They suggest  
16 that the pricing of the AIG loan has increased  
17 uncertainty in LIBOR credit space.

18 Do you see that?

19 A. Yes, I do.

20 Q. He then goes on to say, "The most important thing  
21 about the AIG loan is the terms of the loan, which are  
22 three month LIBOR plus 850 basis points. If the Fed who  
23 now run the company and can influence its outcome deem  
24 that taxpayers deserve an 850 basis points over LIBOR to  
25 lend to a solvent institution with liquidity gaps, then

1 why would any bank worldwide argue with their pricing?

2 Do you see that?

3 A. Yes, I do.

4 Q. Did you have any of conversations with Mr. Sherman  
5 about the subject of this e-mail?

6 A. I did not.

7 Q. So all you know about what was in Mr. Sherman's  
8 mind and what his views were is from the e-mail itself;  
9 correct?

10 A. Well, except that this is clearly he's quoting  
11 someone he was just sloppy about not saying he's quoted  
12 someone I really believe that thanks a quote from someone  
13 else. This is not the sort of thing that Fed trader  
14 analysts are supposed to be opining about in these  
15 e-mails. They're really monitoring the market and  
16 reporting what they're hearing from market participants.

17 Q. Ms. McLaughlin, may I ask you to please listen to  
18 my question?

19 A. Sure.

20 Q. My question was, so all you know about what is in  
21 Mr. Sherman's mind and what is his views were is from the  
22 e-mail itself, you did not have any conversations with  
23 him; correct?

24 A. That's correct.

25 Q. Now, you then respond unforeseen consequence do



1 you see that?

2 A. I do.

3 Q. And what is the unforeseen consequence that you're  
4 talking about?

5 A. So I think here I was taking it face value the  
6 view of the market that the pricing on the loan had  
7 influenced where markets were pricing.

8 Q. And you were describing that as an unforeseen  
9 consequence.

10 A. Yes.

11 Q. And when you got this e-mail, you were as you say,  
12 taking it at face value; correct?

13 A. Yes.

14 Q. You then go on to say, unforeseen consequence, but  
15 could have been avoided if business had had input on the  
16 rate. And when you talk about business, who are you  
17 referring to?

18 A. The discount window staff.

19 Q. Your operation; correct?

20 A. Yes.

21 Q. You then go on to say, "We should have been  
22 charging 3.5 percent (precrisis secondary credit rate  
23 today), not 12 percent and should not have viewed LIBOR  
24 as reference. Do you see that?

25 A. I do.

1 Q. You then go on to say, It is wrong that this was  
2 done without lender's input. Do you see that?

3 A. I do.

4 Q. Now, first, when you say it is wrong, you were  
5 referring to the interest rate; correct?

6 A. That's correct.

7 Q. And when you say "without lender's input," you're  
8 talking about the input from your group; correct?

9 A. Yes. That's correct.

10 Q. And your group would ordinarily be asked for  
11 information about interest rates; correct?

12 A. Yes.

13 Q.

14 A. May I clarify that?

15 Q. Let me ask you?

16 A. May I just clarify what I just said it's not that  
17 we would be asked for an input. It's that there was a  
18 set program in place for discount window lending where  
19 the rates were established, so technically the rates are  
20 set by the board, and so that's what I'm reacting to in  
21 this e-mail.

22 Q. When you say there was a set program in place, did  
23 that set program for fixing interest rates involve  
24 getting the input from your group as a usual matter?

25 A. So --

1 Q. That's a yes, no or I don't know?

2 A. It's a no question -- answer in that the board  
3 sets these rates typically.

4 Q. My question did not relate to whether the board  
5 set the rates or not.

6 A. Uh-huh.

7 Q. My question related to whether in setting the  
8 rates the board got input as a usual matter from your  
9 group.

10 A. Certainly it got input from the markets group on  
11 market rates.

12 Q. And is your group the markets group?

13 A. Well, my -- the group to which I belonged was the  
14 markets group. My own staff would be the discount window  
15 staff.

16 Q. To whom does the head of the markets group report?

17 A. The head of the markets group reports to the  
18 president of the bank. .

19 Q. And when you refer to it is wrong that this was  
20 done without lender's input, you're talking about input  
21 of the markets group?

22 A. Markets group and I think -- I mean, here I'm  
23 frankly I think a little frustrated and also not so aware  
24 of the facts. I think I had understood this to be much  
25 like all other 13(3) --

1 MR. BOIES: Your Honor, may I ask the witness  
2 listen to my question.

3 THE WITNESS: I'm sorry.

4 THE COURT: Yes. Ms. McLaughlin, it's important  
5 for you to listen carefully to Mr. Boies' questions.

6 THE WITNESS: I will.

7 BY MR. BOIES:

8 Q. When you wrote, it is wrong that this was done  
9 without lender's input, I'm just asking you right now,  
10 who were you referring to when you refer to lender's?

11 A. Discount window staff as lender.

12 Q. Okay. And that is your group; correct?

13 A. Yes.

14 Q. Let me turn to the subject of the collateral for  
15 the AIG credit facilities.

16 First, it is your understanding that the  
17 Federal Reserve is actually not allowed to lend on an  
18 uncollateralized basis; correct?

19 A. It's my understanding that we must be secured to  
20 our satisfaction.

21 Q. Is it your understanding that the Federal Reserve  
22 is not allowed to lend on an uncollateralized basis?

23 A. Yes.

24 Q. Is it your understanding that as a result, if the  
25 FRBNY does ever lend, you have to make sure that you are

1 lending an amount that you have sufficient lendable value  
2 to support?

3 A. Yes.

4 Q. Now, with respect to the credit extended to AIG, I  
5 want to begin with a credit that was extended prior to  
6 the actual execution of the September 22 credit  
7 agreement.

8 And am I correct that you were responsible for  
9 managing the collateral for the credit that was extended  
10 during that period?

11 A. Yes.

12 Q. And there was \$14 billion of credit extended on  
13 September 16; correct?

14 A. That's correct.

15 Q. And a total of \$37 billion prior to the execution  
16 of the credit agreement; correct?

17 A. That sounds about right.

18 Q. And each time there was credit extended, there was  
19 collateral that had to be pledged that was sufficient to  
20 support the credit extended; correct?

21 A. That's right.

22 Q. And there had to be a pledge agreement; correct?

23 A. Yes.

24 Q. And there had to be a new guarantee and pledge  
25 agreement signed every time something was extended, new

1 credit was extended; correct?

2 A. I'm not sure. I think if the -- if it was  
3 sufficient, you know, to meet the amount of the loan as  
4 it was increasing, I think didn't necessarily require a  
5 new document, but I'm not sure about that.

6 Q. Let me ask you to look at Joint Exhibit 108, which  
7 is in evidence.

8 And let me hand you up a complete copy of that  
9 document so you have it for context.

10 Now, this is the guarantee and pledge agreement  
11 dated as of September 22, 2008; correct?

12 A. That's correct.

13 Q. Now, there were earlier pledge agreements;  
14 correct?

15 A. That's right.

16 Q. And who signed those pledge agreements?

17 A. I believe there was a draft on September 21 that I  
18 signed.

19 Q. And prior to extending any money to AIG, you had  
20 to be satisfied and your group had to be satisfied that  
21 the collateral that had been pledged was adequate to  
22 secure what was being loaned; correct?

23 A. That's correct.

24 Q. Let me ask you to look at Plaintiffs' Trial  
25 Exhibit 1636, which I would offer.

1 A. Okay.

2 MS. ACEVEDO: We have no objection, Your Honor.

3 THE COURT: Plaintiffs' Trial Exhibit 1636 is  
4 admitted.

5 **(Plaintiff's Exhibit Number 1636 was admitted into**  
6 **evidence.)**

7 BY MR. BOIES:

8 Q. And included in this exhibit is an e-mail from you  
9 on September 23, 2008 at 7:09 p.m.; correct?

10 A. That's correct.

11 Q. And you're talking about AIG requesting a draw of  
12 two and a half billion dollars which you will pay around  
13 9:00 a.m. the following morning; is that correct?

14 A. Yes.

15 Q. And you say I am comfortable making this payment  
16 given that we are showing collateral value as  
17 80.55 billion (104.7 Ernst & Young valuation on  
18 September 22 with a 25 percent haircut) and this draw  
19 only brings outstanding principal up to less than  
20 \$50 billion.

21 Do you see that?

22 A. I do.

23 Q. Now, first, the reference to the Ernst & Young  
24 valuation, that was a valuation that you were familiar  
25 with at the time; correct?

1 A. Yes.

2 Q. And they had made a valuation the previous day of  
3 what they believed the value of the AIG pledged assets  
4 was; correct?

5 A. Yes.

6 Q. And that was 104 billion 700 million; correct?

7 A. 104.7 billion, yes.

8 Q. 104.7 billion?

9 A. Yeah, that's right.

10 Q. Dollars?

11 A. Uh-huh.

12 Q. And the collateral value that you refer to is the  
13 \$80.55 billion that represents a 25 percent haircut;  
14 correct?

15 A. That's correct.

16 Q. Now, who decided to apply a 25 percent haircut?

17 A. So I don't remember if it was the New York Fed  
18 that set the 25 percent or if we got that advice from  
19 Morgan Stanley, but certainly it was ultimately a  
20 decision of New York Fed.

21 Q. Do you know who at the New York Fed made that  
22 decision?

23 A. That, I don't recall.

24 Q. Did anyone from the New York Fed ask for the input  
25 of you or your group about what the haircut should be?



1 A. I don't recall that either.

2 Q. Let me ask you to look next at Plaintiffs' Trial  
3 Exhibit 257, which I would offer.

4 MS. ACEVEDO: We have no objection, Your Honor.

5 THE COURT: Plaintiffs' Trial Exhibit 257 is  
6 admitted.

7 **(Plaintiff's Exhibit Number 257 was admitted into**  
8 **evidence.)**

9 BY MR. BOIES:

10 Q. This is a cover e-mail dated September 26, 2008 at  
11 15:40 Eastern Daylight Time, to you and a number of other  
12 people; correct?

13 A. Yes.

14 Q. And attached at page 4 of the exhibit is something  
15 called AIG Loan Overcollateralization Summary.

16 Do you see that?

17 A. I do.

18 Q. And that summary is dated September 26, 2008?

19 A. Yes.

20 Q. Who prepared this summary?

21 A. I believe -- I believe that our collateral  
22 processing team in markets group prepared this.

23 Q. Now, this shows the \$104,700,000,000 valuation for  
24 pledged AIG collateral. Do you see that?

25 A. Yes.

1 Q. And that is an Ernst & Young valuation; is that  
2 correct?

3 A. That's correct.

4 Q. And then it shows the haircut that brings it down  
5 to \$78,525,000,000?

6 A. That's correct.

7 Q. Lendable value?

8 A. Uh-huh.

9 Q. This is perhaps a minor point, but if there's an  
10 explanation, I think it would be helpful to have it for  
11 the record.

12 If you look at Plaintiffs' Trial Exhibit 1616 --  
13 1636. I'm sorry.

14 A. Yes. Uh-huh.

15 Q. 1636. This is the one we looked at just a moment  
16 ago. This talks about the same \$104,700,000,000  
17 Ernst & Young valuation; correct?

18 A. Yes.

19 Q. And that says the collateral value after  
20 25 percent haircut is 80.55 billion as opposed to  
21 78.525 billion. Do you see that?

22 A. Yeah, I do.

23 Q. Do you know what the explanation for that --

24 A. I noticed that, too. I'm actually not sure.  
25 Perhaps I made a math error in my e-mail. Yeah, it

1 should be the same number. I'm not really sure why.

2 Q. And then it shows the amount that's been drawn;  
3 correct?

4 A. Yes.

5 Q. And then it shows current recapitalized interest  
6 and fees.

7 Do you see that?

8 A. Yes.

9 Q. And then you get to the total borrowing.

10 Do you see that?

11 A. Yes, I do.

12 Q. And then there is a line that shows 15,640,387,989  
13 overcollateralization.

14 Do you see that?

15 A. Yes.

16 Q. First, were these AIG loan overcollateralization  
17 summaries documents that were prepared on a periodic  
18 basis?

19 A. I believe so.

20 Q. And did you receive them on a periodic basis?

21 A. That, I don't remember. I -- I may very well  
22 have.

23 Q. What was the highest amount of loan funds that  
24 were actually drawn by AIG pursuant to the credit  
25 facility?

1 A. I actually don't remember.

2 Q. Approximately?

3 A. I really don't remember.

4 Q. About \$70 billion; is that right?

5 A. It could be. I really don't remember.

6 Q. Okay. When we see numbers that show total  
7 borrowing by AIG, those numbers include not only what AIG  
8 has actually borrowed but what AIG has, quote, borrowed,  
9 close quote, to pay interest and fees; correct?

10 A. That's what it looks like here.

11 Q. And is that what you understood at the time?

12 A. That's not what I understood actually. I thought  
13 that earlier a decision had been made that that was not  
14 going to be the case. But I don't know the facts of  
15 what, you know, where it ended up.

16 Q. Now, there was a 2 percent commitment fee;  
17 correct?

18 A. I don't recall that particular term. Sorry.

19 Q. Okay.

20 THE COURT: Why don't we take a break.

21 MR. BOIES: Yes, Your Honor.

22 THE COURT: We'll reconvene at 11:15.

23 **(Court in recess.)**

24 THE COURT: Let's go ahead.

25 MR. BOIES: Thank you, Your Honor.

1 BY MR. BOIES:

2 Q. Ms. McLaughlin, we talked before the break about  
3 evaluations of the collateral done by Ernst & Young.

4 A. Yes.

5 Q. Do you recall that?

6 A. Uh-huh.

7 Q. Now, in addition, valuations of the AIG collateral  
8 were done by Morgan Stanley; correct?

9 A. Yes.

10 Q. And let me ask you to look at Plaintiffs' Trial  
11 Exhibit 541, which I would offer.

12 MS. ACEVEDO: We have no objection, Your Honor.

13 THE COURT: Plaintiffs' Trial Exhibit 541 is  
14 admitted.

15 **(Plaintiff's Exhibit Number 541 was admitted into**  
16 **evidence.)**

17 BY MR. BOIES:

18 Q. Is this a document with which you're familiar?

19 A. No, it's not.

20 Q. You've never seen this before?

21 A. Not -- no. I don't remember this.

22 Q. Let me ask you to look at pages 2 and 3.

23 A. Yes.

24 Q. Where, at the bottom it says on page 2, changes in  
25 business valuations?

1 A. Yes.

2 Q. Do you see that?

3 A. I do.

4 Q. And then on the next page there's a chart?

5 A. Yes.

6 Q. That shows total estimated asset value?

7 A. Yes.

8 Q. Do you see that?

9 A. I do.

10 Q. Did you see -- even if you didn't see this  
11 document, did you see Morgan Stanley's estimated  
12 valuations as shown here?

13 MS. ACEVEDO: Objection, Your Honor. I just want  
14 to be clear that the witness is not testifying to this  
15 document because she's just said that she has not seen  
16 this document before and she's unfamiliar with it so if  
17 she's going to testify to that that's fine but she should  
18 be clear -- I would like it to be clear on the record  
19 that it's not with respect to this document I think that  
20 would be improper.

21 THE COURT: Well, she is going to testify to this  
22 document if she knows the subjects.

23 MS. ACEVEDO: Thank you, Your Honor.

24 THE COURT: All right.

25 THE WITNESS: I'm sorry. Could you repeat the

1 question.

2 BY MR. BOIES:

3 Q. Yes.

4 Even if you didn't see this document, did you see  
5 the Morgan Stanley estimated valuations that are shown  
6 here?

7 A. No, I did not, not for these dates.

8 Q. Let me show you a similar document that has been  
9 marked as Plaintiffs' Trial Exhibit 592, which I would  
10 offer.

11 MS. ACEVEDO: We have no objection, Your Honor.

12 THE COURT: Plaintiffs' Trial Exhibit 592 is  
13 admitted.

14 **(Plaintiff's Exhibit Number 592 was admitted into**  
15 **evidence.)**

16 BY MR. BOIES:

17 Q. Now, this is another version of these AIG  
18 collateral analyses. This one is for the second quarter  
19 of 2010. The prior one was for the third quarter of  
20 2009.

21 Do you see that?

22 A. I do.

23 Q. And I take it it would be your testimony that  
24 you've not seen this document before?

25 A. Yeah, I don't believe I've seen this.

1 Q. Let me ask you to go to page 5, which at the top  
2 is headed Morgan Stanley Valuation Summary.

3 Do you see that?

4 A. I do.

5 Q. And then there is a summary of selected assets?

6 Do you see that?

7 A. I do.

8 Q. And it shows what the net asset values were for  
9 the fourth quarter of 2009 and for the first quarter of  
10 2010.

11 Do you see that?

12 A. I do.

13 Q. Again, accepting your testimony that you have not  
14 seen this document before, did you ever see these  
15 Morgan Stanley valuations of the AIG collateral for which  
16 you were responsible?

17 A. No.

18 Q. Did you ever see Morgan Stanley evaluations or  
19 valuations of the collateral for which you were  
20 responsible?

21 A. I believe that I saw valuations from  
22 Morgan Stanley in those first few days, so September 16  
23 and thereabouts.

24 Q. After September 22, did you ever see any  
25 Morgan Stanley valuations of the AIG collateral for which



1 you were responsible?

2 A. I don't believe so.

3 Q. Did you ever have any discussions with anyone  
4 about Morgan Stanley estimates or valuations of the AIG  
5 collateral for which you were responsible?

6 A. No. I don't recall having those.

7 Q. Let me turn to the subject of ML III.

8 You're familiar with the Maiden Lane III  
9 transaction?

10 A. I know that there was a Maiden Lane III  
11 transaction. I really was not involved in it at all.

12 Q. Were you responsible for valuing the assets or  
13 collateral for the loan?

14 A. For the -- I was not responsible for anything in  
15 connection with Maiden Lane III.

16 Q. Did you understand that pursuant to 13(3), the  
17 Federal Reserve Bank of New York had loaned money to an  
18 entity called Maiden Lane III or ML III?

19 A. I think I was vaguely familiar there was a  
20 transaction.

21 Q. And do I take it from your testimony, nobody asked  
22 you for any assistance or help in connection with that  
23 transaction?

24 A. That's correct.

25 Q. And you didn't have any responsibility for

1 monitoring the value of the collateral.

2 A. I don't believe so. No.

3 Q. In that case, we will speed up.

4 Let me ask you to turn to Plaintiffs' Trial  
5 Exhibit 2568, which I would offer.

6 MS. ACEVEDO: We have no objection, Your Honor.

7 THE COURT: Plaintiffs' Trial Exhibit 2568 is  
8 admitted.

9 **(Plaintiff's Exhibit Number 2568 was admitted into**  
10 **evidence.)**

11 BY MR. BOIES:

12 Q. This is a summary of certain information with  
13 respect to discount window lending.

14 Is this something that you prepared or  
15 participated in the preparation of for the  
16 Board of Governors of the Federal Reserve System?

17 A. I don't believe I had a hand in drafting this  
18 language, no.

19 Q. Is this language language that you're familiar  
20 with?

21 A. Yes.

22 Q. And how are you familiar with it?

23 A. This is basically a description of our normal  
24 discount window lending activity and so that's something  
25 I had responsibility for from November 2006 on.

1 Q. And it talks about the primary credit rate being  
2 50 basis points above the Fed funds rate; is that  
3 correct?

4 A. In this period of the crisis, yes, that's correct,  
5 it had been previously a larger amount above the Fed  
6 funds rate.

7 Q. When had that changed?

8 A. That is a good question. I don't remember  
9 exactly. It may have been the fall of 2007, but again I  
10 don't exactly recall when the spread changed from a  
11 hundred basis points to 50 basis points.

12 Q. Is it fair to say that during 2008, the primary  
13 credit rate from the Federal Reserve was 50 basis points  
14 above the Fed funds rate?

15 A. I believe it is.

16 Q. And the secondary credit rate was 50 basis points  
17 above the primary credit rate; correct?

18 A. Yes.

19 MR. BOIES: Your Honor, I pass the witness.

20 THE COURT: All right. Thank you, Mr. Boies.

21 Cross-examination, which is really direct.

22 MS. ACEVEDO: I do, Your Honor.

23 - - - - -

24 **CROSS-EXAMINATION**

25 BY MS. ACEVEDO:

1 Q. Good morning, Ms. McLaughlin.

2 A. Good morning.

3 Q. I want to back up and just talk a little bit about  
4 your background just for a moment. You mentioned that  
5 you're the senior -- a senior vice president and advisor  
6 of the markets group; is that right?

7 A. That's right.

8 Q. Can you tell the Court what you do in your current  
9 position?

10 A. Well, currently I work on a range of projects  
11 relating to monetary policy and financial stability. The  
12 main thing I've been involved in the last few years is  
13 leading the try party repo market reform efforts for the  
14 Fed.

15 Q. And you mentioned that in September of 2008 you  
16 were a vice president in the markets group; is that  
17 right?

18 A. That's correct.

19 Q. Okay. And can you tell the Court what you did as  
20 a vice president in the markets group?

21 A. So at that time I had oversight responsibility for  
22 three areas of the markets group, the discount window,  
23 the portfolio design and management staff, which included  
24 collateral management for discount window loans and an  
25 accounting unit.

1 Q. And how long have you worked at the New York Fed?

2 A. 21 years.

3 Q. And can you briefly summarize the positions that  
4 you've held since you joined the Fed prior to becoming a  
5 vice president in the markets group?

6 A. Sure. Do you want me to go through all of them or  
7 there's been a lot. Generally I had a range.

8 Q. High level?

9 A. Staff roles for the first seven years of my  
10 career. I started in bank supervision but gill moved  
11 over to markets within about a year and a half and then  
12 had a series of roles as trader analyst on the foreign  
13 exchange desk, the government securities desk. I then  
14 took on management roles first in our central banking  
15 services area and then later mainly in our discount  
16 window and our markets areas of our markets group.

17 Q. And what's your educational background?

18 A. I have an MBA and a master's in public policy from  
19 the University of Michigan.

20 Q. And do you hold any professional licenses or  
21 certifications?

22 A. I hold the chartered financial analyst  
23 designation.

24 Q. Okay K and I want to switch now to the topic that  
25 Mr. Boies just left on which was discount window lending?

1 A. Uh-huh.

2 Q. You mentioned that you had responsibility for the  
3 financial management and discount window function. What  
4 does that function do?

5 A. So that really encompassed these three areas that  
6 I managed, the portfolio management function for our  
7 foreign and domestic portfolios, the discount window and  
8 then also the accounting unit for the markets group.

9 Q. Okay. And I want to talk for a moment just about  
10 the mechanics of the process about discount window  
11 lending.

12 A. Sure.

13 Q. When you receive a -- when you would receive a  
14 request for discount window lending, what would you do  
15 before extending the loan?

16 A. So typically a bank will call during the day and  
17 request a loan. We the staff will then check to make  
18 sure the bank has pledged adequate collateral that's been  
19 margined or haircutted and if there's enough collateral,  
20 then we will extend that loan.

21 Q. And you mentioned collateral. What is discount  
22 window collateral?

23 A. So discount window collateral really encompasses  
24 all investment grade fixed income securities. It does  
25 not include equity and it does not include noninvestment

1 grade securities.

2 Q. And you also mentioned well before we get there  
3 are there different types of assets that are pledged as  
4 collateral?

5 A. Yeah. Sure. There are government securities and  
6 nongovernment securities. There's a whole range of  
7 corporate bonds that are pledged.

8 Q. And you mentioned haircuts just a moment ago. Do  
9 haircuts differ by asset type?

10 A. They do.

11 Q. And what is the relationship between a haircut and  
12 the asset type of the collateral?

13 A. So typically the way that we set haircuts for an  
14 asset type would be to do is a study of the assets  
15 historic provides volatility over some period and you do  
16 see differences in volatility for different types of  
17 assets so for a government security, a very short dated,  
18 like a Treasury bill, those have very low historical  
19 price volatility and would have low haircuts. For a more  
20 volatile asset such as a corporate bond that's rated BBB  
21 or A, that tends to have more historical price volatility  
22 and would have a higher haircut.

23 Q. Thank you. I want to switch now to a topic that  
24 Mr. Boies asked you about earlier which is PDCF lending.

25 A. Yes.

1 Q. Okay. When was the -- I'm sorry. What was the  
2 term of a PDCF loan?

3 A. It was overnight.

4 Q. Okay. And you testified earlier that the PDCF was  
5 created in March of 2008; is that right?

6 A. That's correct.

7 Q. Okay. And let's talk again about the mechanics of  
8 the process of lending now with respect to PDCF lending.

9 When you received a request for a PDCF loan, what  
10 did you do before making the loan?

11 A. So in this case, PDCF involved the clearing banks  
12 through which the primary dealers clear, so the clearing  
13 bank would let us know the dealer was requesting a loan  
14 and we would then await their instruction as to whether  
15 there was enough lendable value of collateral. We had  
16 provided to each clearing bank a schedule of haircuts and  
17 also a schedule of the assets that we would accept, so on  
18 that basis, they would calculate lendable value. If it  
19 was sufficient, they would let us know that and then we  
20 would instruct payment.

21 Q. And you mentioned a clearing bank. Can you tell  
22 the Court what a clearing bank is?

23 A. So there two institutions in the U.S. that serve  
24 as clearing banks. These are bank of New York melon and  
25 JPMorgan Chase and these are clearing banks for tri party



1 repo transactions or repurchase transactions. Those  
2 transactions are the form in which we accepted collateral  
3 and extended the loans for the primary dealers.

4 Q. And can you explain what the tri party repo system  
5 is?

6 A. Sure. So a repo or a repurchase agreement is  
7 essentially a secured lending, cash for collateral. It  
8 takes the form of a sale and repurchase of the security,  
9 hence the name repo. A typical repo would typically have  
10 just two parties, a borrower and a lender. A tri party  
11 repo differs in that there's a third party, the clearing  
12 bank, that serves as the agent for the lender to manage  
13 the collateral, make sure that the borrower is only  
14 pledging what the lender will accept and value that  
15 collateral typically on a daily basis and also apply the  
16 haircuts that the lender has established for each asset  
17 type.

18 Q. Now, what form did PDCF collateral take when the  
19 PDCF was established in March 2008?

20 A. So at that time we were accepting investment grade  
21 fixed income securities, so both government securities  
22 and also privately issued fixed income securities.

23 Q. And did the form of collateral that was accepted  
24 for PDCF lending change?

25 A. It did.

1 Q. And when did it change?

2 A. It changed on September 14.

3 Q. And how so?

4 A. It was expanded to include also noninvestment  
5 grade marketable fixed income securities and equities.

6 Q. Okay. And when you say equities, what are you  
7 referring to?

8 A. Stocks, so, for example, a share of IBM stock  
9 could be pledged.

10 Q. Okay. And did the Fed ever take real estate as  
11 collateral for a PDCF loan?

12 A. No.

13 Q. Did the New York Fed ever take collateral for a  
14 PDCF loan that didn't have a third-party price?

15 A. No.

16 Q. I want you to take a look at PTX 293. It's an  
17 exhibit that Mr. Boies asked you about earlier.

18 A. I'm sorry. Can you repeat the number?

19 Q. PTX 293.

20 A. 293.

21 Yes.

22 Q. And he asked you in particular about page number 7  
23 of that exhibit.

24 A. Yes.

25 Q. And do you see there that there's a reference to

1 equity in the chart to which he asked you about?

2 A. Yes.

3 Q. What is -- what does equity refer to in that  
4 chart?

5 A. So equity would refer to marketable equities that  
6 are publicly traded listed on a stock exchange, so again  
7 something like a share of IBM stock.

8 Q. Okay. You can set that aside. Thank you.

9 Now, you mentioned that when the PDCF collateral  
10 requirements were broadened you began to accept  
11 noninvestment grade fixed income securities?

12 A. That's correct.

13 Q. Can you tell the court what those are?

14 A. Those are securities that are either rated below  
15 investment grade, so BBB is the typical I think floor of  
16 the investment grade rating category. In some cases the  
17 security might not have a rating at all.

18 Q. And when you took noninvestment grade fixed income  
19 securities, did those securities have a trading price?

20 A. Yes, they did.

21 Q. And did that trading price take into account the  
22 fact that they were not investment grade?

23 A. Yes, it would have.

24 Q. Okay. And can you give us an example?

25 A. So, for example, say Google issues a corporate

1 bond. Google is probably investment grade, but if they  
2 weren't, the bond would owe either have ratings that  
3 would be below BBB or might not be rated and it would  
4 typically have a price well below 100 to reflect that.

5 Q. Are you familiar with the term junk bonds?

6 A. I am.

7 Q. Are junk bonds -- what are junk bonds?

8 A. They are typically noninvestment grade.

9 Q. Okay. And you also mentioned that when the  
10 collateral requirements were broadened that the  
11 New York Fed began to take publicly traded securities do  
12 you recall that?

13 A. That's correct.

14 Q. Can you explain to the Court what you're referring  
15 to when you say publicly traded equity securities?

16 A. So again something like a share of IBM stock  
17 that's listed on an exchange, it can be traded publicly,  
18 there's a price visible for that each day in the market.

19 Q. So those equity securities have a trading price;  
20 is that right?

21 A. That's right.

22 Q. And does collateral have a risk component to it?  
23 You mentioned price volatility earlier.

24 A. Sure. Sure. It has several risk components. The  
25 key ones that we look at in thinking about haircuts at

1 the Fed are price risks, so market risk, typically things  
2 like interest rates how movements in interest rates might  
3 affect the value. And then also the credit risk of the  
4 issuer of the security, and that's where the credit  
5 ratings come in.

6 Q. Okay. And how did the risk that was associated  
7 with the newly permissible collateral compare to the risk  
8 that was associated with collateral taken prior to the  
9 change?

10 A. It was higher, the new collateral had more risk.

11 Q. And how if at all did the higher risk attached to  
12 the newly permissible collateral affect the Fed's  
13 assessment of its lendable value?

14 A. So in general we used higher haircuts for those  
15 asset types given the higher risk. And that would have,  
16 you know, produced all else equal a lower lendable value.

17 Q. Okay. Now, you just mentioned lendable value.

18 How was lendable value for PDCF collateral  
19 determined?

20 A. It's done the same way for PDCF and all of our  
21 other programs. We take the market value of the asset  
22 and we discount that by the haircut.

23 Q. Okay. And who determined the haircuts?

24 A. So for PDCF it was the -- the New York Fed that  
25 suggested the haircuts and I think the board approved

1 those.

2 Q. And how did you determine those?

3 A. We typically use a value at risk type of analysis  
4 basically looking at how volatile is the this asset type  
5 over a past period using price data.

6 Q. Now, we spoke about some characteristics of  
7 collateral a moment GAO I want to talk about  
8 characteristics of haircut.

9 A. Uh-huh.

10 Q. Haircuts. Pardon me. What factors affected the  
11 size of the haircut?

12 A. So in general, I think, you know, the price  
13 volatility was really the driver and that would reflect  
14 both the market's assessment of market risk and also  
15 credit risk of that asset type over that period.

16 Q. And for the newly permissible collateral, can you  
17 describe the range of haircuts that you assigned?

18 A. So again, depending on the borrower and depending  
19 on the asset type, I think they were as high as  
20 20-25 percent.

21 Q. Okay. And did you apply haircuts to equity  
22 securities that were accepted at the PDCF in September of  
23 2008?

24 A. We did.

25 Q. Okay. And what was the range for those haircuts?

1           A. So again I think those ranged depending on the  
2 borrower as high as 20 or 25 percent.

3           Q. And what was the reason for the range?

4           A. So I think one factor for the range within the  
5 equity haircuts was of course the assessment of the  
6 borrower's risk.

7           Q. And can you give us an example of what kind of  
8 equity security would get a 25 percent haircut?

9           A. So it would be, you know, a U.S. publicly traded  
10 listed equity, again, such as a share of IBM stock and  
11 again depending on the borrower could get as much as a 20  
12 or 25 percent haircut.

13          Q. And why IBM stock get a 25 percent haircut?

14          A. Well, you know, the risk of the security would be  
15 a driver and I think if there was an assessment of risk  
16 with the borrower, that would also play in.

17          Q. Okay. And we just talked about a level of risk  
18 that was associated with collateral. I want to talk  
19 about haircuts now.

20                 Is there -- first of all, what's the purpose of a  
21 haircut?

22          A. Well, the haircut is really to protect us as the  
23 lender against a decline in the value of the asset that's  
24 been pledged because we always want to make sure that we  
25 have enough collateral that if the borrower were to

1 default that we would be able to take that collateral  
2 that they've pledged to us, sell it in the market and  
3 recoup our loan.

4 Q. And is there a risk associated with haircuts?

5 A. Sure. I mean, I think, you know, there's always  
6 some risk in relying on past prices as an indication of  
7 future movements.

8 Q. And is there a possibility that a haircut will not  
9 always protect against the maximum possible decline in  
10 the value of the collateral?

11 A. Yes. I think that's definitely true.

12 Q. Okay. And now I want to focus on AIG. You were  
13 asked some questions about the valuation of collateral in  
14 connection with the AIG loan?

15 A. Uh-huh.

16 Q. Did you have any involvement in the decision to  
17 lend to AIG?

18 A. No, I did not.

19 Q. Okay. I want to take a look at a couple of  
20 PTX exhibits again that plaintiff asked you about.

21 A. Okay.

22 Q. One of them is PTX 145, if you could just take a  
23 look at that in your binder.

24 This is an e-mail in which you expressed an  
25 opinion about the interest rate.



1 A. Yes.

2 Q. Can you tell the Court what your thinking was when  
3 you wrote this e-mail?

4 A. Sure. So at this time I have to say that week, I  
5 was actually not even really focused on AIG as my day  
6 job. I was working on other projects, including PDCF's  
7 expansion, so I was a little behind I think in my  
8 understanding of the terms. And at this point I really  
9 was not aware yet that this wasn't kind of an  
10 organization like others that we had lent to in the past,  
11 so I was thinking about this in terms of the normal  
12 discount window, you know, framework for rates that had  
13 also been used in PDCF and TSLF.

14 Q. Okay. And you express herein as you talked about  
15 earlier that you think the rate is high. Do you still  
16 have that opinion now?

17 A. Today I actually don't.

18 Q. And why is that?

19 A. I since came to understand from colleagues that  
20 know a fair amount about the syndicated loan market that  
21 the spread of 850 basis points I think it was, was pretty  
22 representative of how risky loans were being priced in  
23 the market in that period in 2008.

24 Q. Okay. And you were also asked about  
25 Mr. Scott Sherman who sends the e-mail at the bottom of

1 the page?

2 A. Yes.

3 Q. What was he doing at this time?

4 A. He was on rotation on our trading desk, so it's  
5 actually more of an analysis desk we don't really trade a  
6 whole lot. But the trader analysts are responsible for  
7 their shift to monitor what's happening in markets and  
8 escalate commentary that they're hearing or developments  
9 that they're seeing asset prices to senior management.

10 Q. I want to take a look at another exhibit that you  
11 were asked about, PTX 102.

12 And I want to focus on the second sentence of the  
13 e-mail in parentheses which says I see we own 80 percent  
14 do you see that?

15 A. Yes, I do.

16 Q. Why did you write that?

17 A. So -- and I probably should have written I hear we  
18 own 80 percent. I think there was a lot of confusion on  
19 this on that Tuesday. I think people were throwing  
20 around the term "equity" and maybe not really  
21 understanding what was involved, but there was a lot of  
22 kind of gossip that we were somehow taking an ownership  
23 interest. Now, of course as a lender, we're not taking  
24 ownership of the collateral unless the lender defaults,  
25 but I think there was just a lot of confusion, frankly in

1 the office that day about what that meant. So again,  
2 you know, I probably should have said I hear we own  
3 80 percent because that's the kind of thing I was hearing  
4 that day.

5 Q. Okay. And have you read any of the loan  
6 documentation at this time?

7 A. Not at this time, no, I don't think so.

8 Q. Okay. Now, I want to talk about the AIG loan in  
9 particular and your role in collateral valuation that you  
10 talked about earlier.

11 A. Uh-huh.

12 Q. When did the first -- when did -- blah, blah,  
13 blah. When did the New York Fed first lend money to AIG?

14 A. I believe it was that Tuesday, September 16.

15 Q. Okay. And you talked a little bit about this  
16 earlier, but if you could just explain to the Court again  
17 what was your responsibility in connection with that  
18 role?

19 A. So my responsibility was to make sure that we had  
20 a calculation of what the lendable value of the  
21 collateral was, so to know what was the value and then  
22 applying the haircut, would that be sufficient to cover  
23 the amount of cash that we were lending.

24 Q. Okay. And if I can just have you turn to an  
25 exhibit in your binder, which is JX 83. There are three

1 documents on pages 1 through 15. Can you identify those  
2 documents for the Court?

3 A. Sure. So on page 1 it's the demand note for the  
4 initial night's borrowing by AIG on September 16 in the  
5 amount of 14 billion. On page 3 there's a pledge  
6 agreement same date talking about the collateral to  
7 support that lending.

8 Q. And how about page 2?

9 A. Page 2, a security agreement, also dated  
10 September 16.

11 Q. Okay. I'm going to focus your attention on page 3  
12 of the exhibit on the pledge agreement. Now, if you look  
13 at the top paragraph there, it appears that the parties  
14 to the agreement are the New York Fed and AIG; is that  
15 right?

16 A. That's correct.

17 Q. Okay. If I can just have you focus for a moment  
18 on section 2 there at the bottom of the page?

19 A. Yes.

20 Q. If you could just read the introductory paragraph  
21 and the first two subparagraphs numbered A and B or  
22 lettered A and B and let me know when you're done,  
23 that would be great.

24 A. Okay.

25 **(Pause in the proceedings.)**

1           Okay.

2           Q. And what is your understanding of what's being  
3 conveyed here?

4           A. So I think it's saying schedule I contains the  
5 assets that are being pledged in support of the loan.

6           Q. Let's take a look at that. It's on page 14.

7           Can you tell the Court what's shown here?

8           A. So these are four subsidiaries of AIG in which an  
9 equity interest appears to have been pledged.

10          Q. And is this the collateral that was pledged in  
11 connection with the loan?

12          A. I believe it was.

13          Q. Okay. And how did the New York Fed perfect its  
14 interest in this collateral?

15          A. So this was kind of unusual because these are not  
16 publicly traded listed securities and they don't exist in  
17 electronic form, so we actually had to get the physical  
18 certificates. I think three of them were in the New York  
19 area, one of them was actually in LA. And so we actually  
20 had to bring those physical securities -- securities to  
21 our premises at a Federal Reserve Bank to consider that  
22 we had perfected the claim.

23          Q. And how did this collateral that's identified here  
24 in schedule I compare to the PDCF collateral that was  
25 accepted on this date, September 16, 2008?

1           A. So I think a big difference is these were not  
2 marketable securities, which is typically what we would  
3 take at the discount window or in PDCF.

4           Q. Did they have third-party pricing?

5           A. Eventually they did have first from Morgan Stanley  
6 and then from Ernst & Young.

7           Q. Okay. Did they at this time?

8           A. I -- I'm not sure if we had a third-party price  
9 that first night. We may have. I'm not sure.

10          Q. Okay. Let me direct you to the column Registered  
11 Owner.

12                 Who owned this collateral?

13          A. AIG.

14          Q. And what was AIG's relationship to the borrower?

15          A. They were the borrower.

16          Q. And can you explain what issues, if any, that you  
17 see in accepting equity of a subsidiary of the borrower  
18 as collateral?

19          A. So in general this is pretty different from our  
20 kind of normal policies in discount window and even what  
21 we did for PDCF. We don't like to accept the obligations  
22 of the borrower because any collateral that whose value  
23 is tied to the value of the borrower becomes pretty  
24 worthless as protection in the event that the borrower  
25 defaults and of course borrower default is really what

1 we're taking collateral to protect against.

2 Q. Are you familiar with the term "wrong way risk"?

3 A. Yes.

4 Q. What's that?

5 A. It's typically used to describe a high correlation  
6 between movements in the value of a borrower and its  
7 collateral.

8 Q. Okay. Had the New York Fed ever accepted  
9 collateral and equity interest of a subsidiary of a  
10 borrower as collateral for a loan before?

11 A. Not to my knowledge.

12 Q. In fact, has the New York Fed ever accepted  
13 collateral and equity interest of a subsidiary of a  
14 borrower since the AIG loan?

15 A. No.

16 Q. Okay. Did AIG borrow money on September 17?

17 A. I believe they did.

18 Q. Okay. If I can have you turn to JX 84 in your  
19 binder, it should be the next document. And I'll direct  
20 you to page 3.

21 A. Yes.

22 Q. If you look in the -- can you identify this  
23 document for the Court?

24 A. This looks like a second demand note dated  
25 September 17 for another 14 billion in lending to AIG by

1 the New York Fed.

2 Q. Now, if you look at the second paragraph there,  
3 there's a reference to an amended and restated pledge  
4 agreement. Do you see that?

5 A. I do.

6 Q. Are you familiar with that document?

7 A. I think I -- yeah, I think I am.

8 Q. Let's take a look at the next document in your  
9 binder it should be the last one, JX 92.

10 A. Yes.

11 Q. Can you tell the Court what this document is?

12 A. So this is an amendment of the pledge agreement  
13 that was originally dated September 16, the amendment is  
14 on September 17. And it's basically restating the set of  
15 collateral that was being pledged against the loan.

16 Q. And if you take a look at page 12 there, there's a  
17 signature and it appears to have your name under there.  
18 Is that your signature?

19 A. That's, yes, it is.

20 Q. And why did you sign this document?

21 A. So this document as the pledge agreement was  
22 something that we, the Fed as lender needed to agree to  
23 and I was signing on behalf of the lender.

24 Q. And did AIG pledge collateral in connection with  
25 the loan on September 17, 2008?



1 A. They did.

2 Q. Let's take a look at the next page, page 13.

3 Can you tell can Court what's shown here?

4 A. Yes.

5 So this is a table showing an additional equity  
6 interest in an AIG subsidiary in addition to the four  
7 that had been listed on the 16th.

8 Q. And this is the collateral then that was pledged  
9 in connection with the loan; is that right?

10 A. That's correct.

11 Q. Okay. And again, who owns this collateral?

12 A. AIG.

13 Q. Okay. Now, I want to talk about how this  
14 collateral is valued. How is the lendable value of the  
15 collateral determined?

16 A. So typically -- are you -- are you asking  
17 specifically about the AIG collateral?

18 Q. Yes.

19 A. So the AIG collateral we actually did not have any  
20 capacity to value that in-house and the clearing bank  
21 couldn't provide and wouldn't really be in a position to  
22 provide value, so we needed to find an outside expert  
23 that could provide estimates to us.

24 Q. And who was that?

25 A. So initially it was Morgan Stanley.

1 Q. Okay. And why did Morgan Stanley value the  
2 collateral?

3 A. I think someone at the New York Fed asked them to  
4 do so because we indicated that we didn't know what the  
5 value was.

6 Q. And how did they do that? Do you know?

7 A. I don't know the details. I think they used kind  
8 of a rule of thumb. They kind of went from book to  
9 market value using a multiple. I think that was standard  
10 practice at the time.

11 Q. Okay. And do you know how the effort to value  
12 this collateral, AIG's collateral, pledged in connection  
13 with the loan shown in the two exhibits that we just  
14 looked at, compares to efforts to value collateral for  
15 other emergency lending programs at this time?

16 A. So in general I think there was a lot more  
17 uncertainty because this doesn't trade in the market,  
18 there wasn't an observable price for it which there would  
19 be for other collateral that we took in the discount  
20 window and PDCF programs, so there definitely was more  
21 just uncertainty about what its value might be.

22 Q. Okay. If I can have you turn to an exhibit in  
23 your binder, it's DX 473.

24 Can you identify this document for the Court?

25 A. So this is an e-mail from Annmarie Rowe-Straker,

1 who reported to me, to Greg Cavanaugh. He's a lawyer at  
2 the New York Fed. And this is an e-mail that's talking  
3 about how much lendable value of collateral AIG has  
4 pledged yet and how that relates to the amount that  
5 they've been borrowing.

6 Q. I want to focus your attention now on the chart  
7 that's on the last two pages of the exhibit.

8 Can you explain to the Court what's shown here?

9 A. So this is a listing of looks like six  
10 subsidiaries at this point in which an equity interest  
11 was being pledged by AIG, only four of them have a book  
12 value that was provided by AIG. Only two of them appear  
13 to have been valued at this point by Morgan Stanley  
14 that's the M S valuation column. The F R S value is the  
15 column indicating the Federal Reserve System's -- the  
16 value that the Fed was going to accept. And it appears  
17 to be the lower of the two columns, AIG and M S. And  
18 then based on that F R S value, a multiple of anywhere  
19 between 1 and 1.3 is applied to arrive at an estimate of  
20 fair value or market value, so that's typically what we  
21 would think of as market value.

22 We then applied a 25 percent haircut to discount  
23 that fair value to lendable value.

24 Q. Okay. And you just referenced the haircut. And  
25 this is something that you testified to earlier.

1           Do you know who determined the amount of that  
2 haircut?

3           A. I honestly don't remember. But in any event, it  
4 was something that was decided by the New York Fed to use  
5 that haircut.

6           Q. Okay. And we spoke earlier about equity  
7 securities and in particular about IBM getting a  
8 25 percent haircut. Do you recall that?

9           A. Yes.

10          Q. Okay. Now, for context, how did the equity  
11 securities accepted as PDCF collateral compare to equity  
12 interests in AIG's subsidiaries that were pledged as  
13 collateral for the loan?

14          A. So as I've noted, they were tradable, so they were  
15 liquid, that is, on any given day you could expect to go  
16 into the market and be able to sell the marketable  
17 securities that were pledged for PDCF. Additionally, you  
18 would usually have a good sense on any given day of the  
19 value for which you could sell them because there was an  
20 observable price in the market and in fact that price can  
21 fluctuate over the course of a day even.

22                 So I think those were -- those were two key  
23 characteristics that were different.

24          Q. Okay. Now, do you have a view as to how the risk  
25 that the IBM stock, for example, which got a 25 percent

1 haircut -- do you have a view as to how the risk of  
2 that stock that got a 25 percent haircut is collateral  
3 under a PDCF loan compares to the risk -- risk associated  
4 with AIG's subsidiary interest which were pledged as  
5 collateral for the loan which also got a 25 percent  
6 haircut?

7 A. So certainly there's less liquidity risk  
8 associated with a publicly traded security. I think  
9 also, you know, we had at least greater certainty about  
10 the value because we had already a source of pricing to  
11 look to from the market for the equity of marketable  
12 securities. We didn't really have that same kind of  
13 realtime market-determined view of value for the equity  
14 interests in the subsidiaries of AIG.

15 Q. Now, the last column on the chart on DX 473 says  
16 Lendable Value. What did the lendable value represent?

17 A. This was the amount of collateral that we counted  
18 towards the cash amount that we were going to extend as a  
19 loan.

20 Q. Okay. And what was that at this time,  
21 September 17?

22 A. I think it was 28 billion that we were lending at  
23 that point.

24 Q. I'm sorry. Let me ask a different question. Let  
25 me be more clear. What was the lendable value of AIG's

1 collateral on September 17, 2008?

2 A. So at this time it was 41 billion it looks like  
3 and change.

4 Q. Okay. Now, Mr. Boies showed you the guarantee and  
5 pledge agreement earlier. Do you recall that?

6 A. Yes.

7 Q. Okay. Are you also familiar with -- oh, I'm  
8 sorry. Your Honor, I'd like to move in DX 473.

9 MR. BOIES: Your Honor, this is one of the  
10 documents that has stuff blocked out in it. If all she  
11 wants is the chart, I would have no objection to her  
12 submitting the chart that the witness has testified about  
13 so the Court has that available in the record. But I  
14 would object to the exhibit as a general proposition.

15 THE COURT: Is that acceptable to you,  
16 Ms. Acevedo?

17 MS. ACEVEDO: Well, certainly we would like the  
18 chart admitted, but we did produce the e-mail in an  
19 unredacted form and I can provide that to plaintiffs and  
20 to the Court as well. I'd like to have the entire  
21 exhibit moved in. The e-mail that was -- I don't know --  
22 well, I guess I do know it was redacted because we have  
23 it unredacted form but I don't have the complete document  
24 and the attachment in unredacted form I can provide a  
25 copy of the -- it was produced in discovery. I can

1 provide the ream.

2 THE COURT: So it was privileged in discovery and  
3 it's not privileged anymore.

4 MS. ACEVEDO: I don't know. I don't know why it  
5 was produced redacted, Your Honor.

6 THE COURT: Well, I can't admit without giving  
7 Mr. Boies a chance to see the full text.

8 MS. ACEVEDO: Sure. I have it right here,  
9 Your Honor. .

10 THE COURT: I do have a strong preference as you  
11 know for unredacted versions of documents.

12 MS. ACEVEDO: I understand that, Your Honor. I  
13 have it right here and I'm going to provide to him a copy  
14 right now.

15 And just to be clear, Your Honor, that was  
16 produced in discovery. I don't know why it's redacted on  
17 Exhibit 473, but I used that because it had the chart and  
18 I do obviously want to get the chart in.

19 THE COURT: Well, I think what we can do is to  
20 admit the schedule for sure.

21 MS. ACEVEDO: Okay.

22 THE COURT: To Defendant's Exhibit 473 and then  
23 we'll give plaintiff an opportunity to review the full  
24 document before we make a final decision about it.

25 MS. ACEVEDO: Just so that I'm clear, Your Honor,

1 with respect to the admission of documents with  
2 redactions, sit Your Honor's I guess ruling that the  
3 defendants cannot have documents with redactions  
4 admitted?

5 THE COURT: No, I wouldn't say that as an across  
6 the board assertion, but I think it causes me concern  
7 when the defendant comes forward with one of its own  
8 documents that it wants to use in support of its case and  
9 yet at the same time it wants to redact material on one  
10 basis or another. It seems at that point you have a  
11 choice to make what you want to do with the document.

12 MS. ACEVEDO: Okay. I guess do you have an  
13 objection.

14 MR. BOIES: Your Honor, what counsel hands me is  
15 not another version of this document have it is another  
16 e-mail string that happens to have a complete portion of  
17 this e-mail in it.

18 MS. ACEVEDO: Right.

19 MR. BOIES: It seems to me that the simplest thing  
20 to do and I will have no objection if they do this is  
21 they simply provide a revised copy of DX 473 so that  
22 we've got the exact exhibit they're using with the  
23 witness in unredacted form.

24 THE COURT: Call it Exhibit DX 473-A if you like.

25 MS. ACEVEDO: Certainly, Your Honor. And we'll



1 move -- we'll get that and move it into evidence at the  
2 appropriate time.

3 THE COURT: Right. And bring enough copies so  
4 that we can have one, too.

5 MS. ACEVEDO: Of course. In the interim, I'd move  
6 to admit the chart.

7 THE COURT: Sure. I don't think there's any  
8 problem with that. The chart shown on the last two pages  
9 of Defendant's Exhibit 473 is admitted.

10 **(Defendant's Exhibit Number 473 was admitted into**  
11 **evidence.)**

12 BY MS. ACEVEDO:

13 Q. Ms. McLaughlin, before I forgot to move in the  
14 exhibit, we were talking about the credit agreement and  
15 the guarantee and pledge agreement. Do you recall is  
16 that?

17 A. I do.

18 Q. And how, if at all, did your responsibilities in  
19 connection with the AIG loan change after the execution  
20 of those agreements?

21 A. And you're talking now about the agreements to  
22 support the ongoing loan that was dated I think September  
23 23 or 22?

24 Q. Sure. You can take a look. Mr. Boies gave you a  
25 copy, for example, of the guarantee and pledge agreement.

1 I can provide you with a copy of the credit agreement if  
2 you would like.

3 If you look at the front cover of the guarantee  
4 and pledge agreement, it indicates it was dated  
5 September 22?

6 A. Right.

7 Q. Okay. And so let me re-ask my question so that we  
8 have a clear record.

9 I guess I can back up for a second.

10 Do you recall -- you do recall, don't you, the  
11 credit agreement?

12 A. I do.

13 Q. And do you recall when that was signed or  
14 executed?

15 A. So it would have been signed September 22 I  
16 believe.

17 Q. Okay. How, if at all, did your responsibilities  
18 in connection with the AIG loan change after the  
19 execution of those agreements?

20 A. So I became much less involved and delegated  
21 responsibility for managing the lending and the  
22 collateral to my deputies because I was actually working  
23 a lot on the expansion of this PDCF credit facility to  
24 the three firms that we discussed earlier.

25 Q. And when I asked you earlier about how the

1 collateral was valued, you'd mentioned initially  
2 Morgan Stanley valued the collateral have?

3 A. Uh-huh.

4 Q. Did Ernst & Young also value AIG collateral  
5 pledged in connection with the loan?

6 A. They did subsequently. Yes. And I think around  
7 the time of the signing of these agreements we began to  
8 use that valuation.

9 Q. And you anticipated my next question, which was  
10 when did Ernst & Young value that collateral.

11 A. Uh-huh. Yeah. So I think it was the 22nd of  
12 September.

13 Q. And do you know how they did that?

14 A. I don't know the details. I really wasn't  
15 involved in meetings. But I do recall that they used  
16 what was called an actuarial approach to valuation.

17 Q. Okay. And if I can direct you to another  
18 document -- actually I think to avoid an issue with  
19 respect to redactions, I'll just use a different one.

20 Permission to approach, Your Honor?

21 THE COURT: Sure.

22 BY MS. ACEVEDO:

23 Q. Oh, whoops. I didn't give you one.

24 Sorry about that.

25 A. That's okay.

1 Q. If you can just identify that document for the  
2 Court, it's DX 537.

3 A. Yes. So this is a memo to Christine Cumming who  
4 is our first vice president at the bank from  
5 Sandy Krieger who is the head of our newly formed risk  
6 function.

7 Q. Okay. And if you take a look at the memo that's  
8 attached?

9 A. Yes.

10 Q. Why did you receive this memo?

11 A. So I think this memo from sandy to Christine and  
12 to many of us was just to make sure everyone was aware  
13 that the approach to valuing the AIG equity interests in  
14 subsidiaries was changing from the use of Morgan Stanley  
15 valuation which we had initially done to the use of  
16 values provided by Ernst & Young.

17 Q. Okay. And if I could just direct you to the first  
18 paragraph there, there's a sentence there that states the  
19 market group modified its approach to valuation of  
20 collateral. Do you see that?

21 A. Yes.

22 Q. What was that modification?

23 A. We were basically entering numbers into our system  
24 from a different source. That was the change.

25 Q. Okay. And prior to the date of this memo, what

1 was the source of valuation for the collateral in  
2 connection with the loan?

3 A. It was estimates from Morgan Stanley.

4 Q. And after the date of this memo, what was the  
5 source?

6 A. Estimates from Ernst & Young.

7 Q. Okay. Your Honor, I move for the admission of  
8 DX 537?

9 MR. BOIES: No objection, Your Honor.

10 THE COURT: Defendant's Exhibit 537 is admitted.

11 **(Defendant's Exhibit Number 537 was admitted into**  
12 **evidence.)**

13 BY MS. ACEVEDO:

14 Q. Now, Ms. McLaughlin, you were asked about an  
15 Ernst & Young valuation number -- sorry -- valuation  
16 analysis earlier. Do you recall that?

17 A. Yes.

18 Q. And in particular about the number 104.7?

19 A. Yes.

20 Q. Do you recall that associated with that?

21 A. I do.

22 Q. Okay. Do you know what assumptions went into that  
23 valuation?

24 A. So again I'm not -- I was not involved in the  
25 meetings where Ernst & Young presented its approach and

1 the assumptions. I think, though, I do recall one  
2 assumption was that the firm would be a going concern. I  
3 don't -- I don't know the details of what the actuarial  
4 approach involved, though.

5 Q. If AIG were not a going concern, how might that  
6 have affected the valuation identified therein?

7 A. I think we would expect that the subsidiaries  
8 would have been valued much, much lower.

9 Q. Okay. And you were also asked about the PDCF and  
10 the TSLF with respect to undrawn funds. Do you recall  
11 that?

12 A. I do recall that.

13 Q. Okay. Did the PDCF and TSLF have undrawn funds?

14 A. It wasn't really set up like that.

15 A. It was really more of a standing facility where  
16 people would ask for the amount and if they have lendable  
17 value sufficient to support that, it would be granted.

18 Q. Okay. And let me ask it a different way.

19 Were those revolving -- were those revolving fund  
20 credit facilities?

21 A. No.

22 Q. Okay. Now, going back to AIG, did you have an  
23 understanding as to whether the outside experts who  
24 valued the subsidiaries pledged in connection with the  
25 loan, Morgan Stanley and Ernst & Young, as to whether

1 they determined their value if AIG failed?

2 A. I don't recall ever hearing about a valuation with  
3 a failure assumption.

4 Q. And did you ever worry at any point about whether  
5 the value of the collateral that was pledged in  
6 connection with the loan was sufficient to cover the full  
7 amount of the loan in the event that AIG failed?

8 A. So I think we didn't -- nobody at the Fed really  
9 felt like they had the expertise to have a view on the  
10 value, but certainly I think that was a concern. There  
11 was generally a feeling of uncertainty about, you know,  
12 what tomorrow might bring particularly in that week given  
13 everything that was happening in markets.

14 MS. ACEVEDO: Your Honor, may I have a moment?

15 THE COURT: Sure.

16 **(Pause in the proceedings.)**

17 MS. ACEVEDO: Your Honor, I have no further  
18 questions.

19 Thank you, Ms. McLaughlin.

20 THE COURT: All right. Redirect, Mr. Boies?

21 MR. BOIES: Thank you, Your Honor.

22 - - - - -

23 **REDIRECT EXAMINATION**

24 BY MR. BOIES:

25 Q. Good morning again.

1           You were just asked whether at any point you had  
2 seen a valuation of the collateral based on the  
3 assumption that AIG had failed. Do you recall that?

4           A. Yes, I do recall it.

5           Q. Did you ever ask for that?

6           A. I don't recall ever asking for that, no.

7           Q. Do you know if anyone ever asked for that?

8           A. They may have, but I'm not sure.

9           Q. But insofar as you're aware, no one asked for  
10 that.

11          A. Yes, that's correct.

12          Q. Now, with respect to the Morgan Stanley analysis  
13 and although the markets group may not have asked for the  
14 Morgan Stanley analysis, you know that the Morgan Stanley  
15 analysis continued to be updated over time; correct?

16          A. I'm not sure to be honest. I wasn't really  
17 focused on this after about September 23, but certainly  
18 it's possible.

19          Q. And do you know whether or not the Morgan Stanley  
20 analysis attempted to arrive at the prices for which the  
21 individual subs could be sold separate from AIG?

22          A. I'm not aware of that.

23          Q. You just don't know one way or the other?

24          A. I just don't know one way or the other, yeah.

25          Q. With respect to your testimony to counsel for the



1 defendant that the IBM stock would have a haircut of  
2 25 percent, do you recall that testimony?

3 A. Yes.

4 Q. Let me ask you to look at Exhibit 1211.

5 THE COURT: Is that plaintiffs'.

6 BY MR. BOIES:

7 Q. That's Plaintiffs' Trial Exhibit 1211 that we  
8 looked at earlier in your examination.

9 A. Yes.

10 Q. And this is the collateral margins or haircuts for  
11 the Primary Dealer Credit Facility. Do you see that?

12 A. Yes, I do.

13 Q. Now, I'd like to direct your attention to the  
14 period from September 15, 2008 to the beginning of August  
15 of 2009.

16 A. Yes.

17 Q. And what is the largest haircut that is shown for  
18 the PDCF credit facility?

19 A. So I see some 20s. I think about 20 percent.

20 Q. Now, you say about 20 percent.

21 A. Yes.

22 Q. For what category of assets was there a 20 percent  
23 haircut?

24 A. So this shows 20 percent for noninvestment grade  
25 rated private label N BS or mortgage-backed securities

1 and C M Os. It also shows 20 percent for noninvestment  
2 grade rated municipal securities and for noninvestment  
3 grade rated corporate securities other than those  
4 guaranteed under the FDIC program, 20 percent is also  
5 shown for noninvestment grade rated convertible bonds.  
6 It's also shown for noninvestment grade rated  
7 asset-backed securities and for noninvestment grade rated  
8 international agency securities, also for noninvestment  
9 grade rated -- actually, let's see -- noninvestment grade  
10 rated money market instruments, bank notes, and auction  
11 rate notes.

12 Q. Now, first, a 20 percent haircut that you've just  
13 identified is the largest haircut shown in the column  
14 that you were referring to; correct?

15 A. That's correct.

16 Q. Now, the column that you're referring to was the  
17 column of haircuts beginning August 3, 2009; correct?

18 A. That's correct.

19 Q. For the period September 15, 2008 up to the  
20 beginning of August of 2009, what is the largest haircut  
21 that you can identify for a Primary Dealer Credit  
22 Facility collateral asset class?

23 A. It looks like the 12.3 percent haircut in that  
24 period for noninvestment grade rated asset-backed  
25 securities.

1 Q. So for the period of 2008 and the first half of  
2 2009, the largest or highest haircut for PDCF collateral  
3 was 12.3 percent; is that correct?

4 A. So that's what's shown on this sheet.

5 Q. Now, where on this sheet would a IBM stock appear?

6 A. So that is an equity, and it would appear under  
7 the equities row second from the bottom on page 3.

8 Q. And the second from the bottom on page 3, the  
9 haircut that is shown for equities for the IBM share of  
10 stock that counsel was asking you about is what?

11 A. It's indicated here as 6.5 percent.

12 Q. 6.5 percent.

13 A. Yes.

14 Q. Not 25 percent; correct?

15 A. That's right.

16 Q. And indeed, even in beginning of August of 2009,  
17 August 3, 2009, the haircut for equities is only  
18 16 percent; correct?

19 A. That's what's shown here. Yes.

20 Q. And there isn't anything about IBM that would have  
21 given IBM a higher haircut than other equities, is there?

22 A. Not that I'm aware of.

23 Q. Let me ask you to look at Joint Exhibit 83, which  
24 is one of the documents that is in the binder counsel for  
25 the defendant gave you.

1           And is this a document that you saw at or about  
2 the time it was prepared in September of 2008?

3           A. You're referring to the demand note on page 1?

4           Q. Well, I'm referring to the exhibit here that has a  
5 demand note, it has a pledge agreement, it has a schedule  
6 that counsel asked you about.

7           A. Yeah. I do -- I did see these that evening of the  
8 16th.

9           Q. And attached to Joint Exhibit 83 are pages 21  
10 through 24, which are two copies of a fax cover sheet and  
11 a signature page. Do you see that?

12          A. I do.

13          Q. Did you have any knowledge about those?

14          A. About the specific -- the fax covers and the  
15 signature pages?

16          Q. Yes. Did anybody tell you where they came from or  
17 what purpose they served?

18          A. I mean, I don't recall seeing these specific  
19 documents, but certainly I think I was aware that AIG as  
20 the borrower would have needed to sign agreements.

21          Q. That AIG as the borrower would have needed to sign  
22 what kind of agreements?

23          A. They would have signed I think the credit  
24 agreement, which governed the terms of the loan that they  
25 were borrowing, and I think they would have also signed

1 or contributed to the pledge agreement which specified  
2 which collateral that they were going to pledge against  
3 the loan.

4 Q. The signature pages that are contained on pages 21  
5 through 24 of Joint Exhibit 83, did you understand that  
6 they related at all to the credit agreement?

7 A. So again I don't remember seeing these specific  
8 pages, so I'm not sure I would have had an understanding  
9 of exactly how these specific pages related to the credit  
10 agreement.

11 Q. You also mentioned that somebody had to sign with  
12 respect to the pledge agreement.

13 Did you have any reason to think that these pages  
14 21 through 24 on Joint Exhibit 83 had anything to do with  
15 any pledge agreement?

16 A. I'm sorry. I just don't know.

17 MS. ACEVEDO: Objection, Your Honor, on  
18 foundation. She said she hasn't seen this before.

19 THE COURT: Overruled. I'll take the answer.

20 THE WITNESS: Yeah, I'm sorry. I don't -- I don't  
21 know.

22 BY MR. BOIES:

23 Q. Let me ask you to go to the chart that is the last  
24 page of Defendant's Exhibit 473.

25 First just as background, did you have any role in

1 preparing this chart?

2 A. I personally did not, no.

3 Q. Did your team?

4 A. It's possible that they did. I don't recall  
5 exactly who prepared this.

6 Q. Had you ever seen this document before this  
7 morning, this chart?

8 A. Oh, yeah. I think I did. I think I did when I  
9 was reviewing agreements on the 16th and probably the  
10 17th, too.

11 Q. And did you have an understanding of what this  
12 referred to?

13 A. Yes. I think I did.

14 Q. Okay. First, the subsidiaries that are listed  
15 here are those subsidiaries that have actually been  
16 pledged; correct?

17 A. Yes. I believe so.

18 Q. And there were various subsidiaries and other  
19 assets that AIG had that were not specifically pledged;  
20 correct?

21 A. At this time, yes.

22 Q. And what you would be doing is you would be  
23 estimating the lendable value of the specific  
24 subsidiaries or assets that were actually pledged;  
25 correct?

1 A. That's correct.

2 Q. Now, there's a column here that is headed  
3 Estimated Fair Value.

4 A. Yes.

5 Q. Do you see that?

6 A. Yes, I do.

7 Q. Do you know how that column was derived?

8 A. So I believe it appears to me here that it may  
9 have been a multiplication of a valuation times the  
10 multiple and the multiple column. I think the value that  
11 was used in that -- it's hard to -- hard to tell for sure  
12 because I don't have a calculator, but it looks like the  
13 F R S value times the multiple got to estimated fair  
14 value.

15 Q. Why was the multiple used?

16 A. That, I don't know, other than I believe that  
17 Morgan Stanley had given the Fed advice about a multiple  
18 to use to convert book value to fair value.

19 Q. Was any examination made by anyone as to whether  
20 or not what Morgan Stanley was proposing made sense?

21 A. So I think someone at the Fed may have gotten some  
22 information on what other firms did in this vein using  
23 this type of approach.

24 Q. Were you satisfied on or about September 16 that  
25 the values shown in the Estimated Fair Value column were

1 values that could reliably be used to, after a 25 percent  
2 haircut, arrive at lendable value?

3 A. Yes.

4 Q. Now, you said that Ernst & Young had had an  
5 assumption that AIG would have a going concern. Do you  
6 recall that?

7 A. Yes.

8 Q. You also said that Ernst & Young did an actuarial  
9 approach to valuation. Do you recall that?

10 A. Correct.

11 Q. Did the going concern issue have anything to do  
12 with the valuation that came out of the actuarial  
13 approach?

14 A. I believe it did. I believe that that was an  
15 assumption underlying the estimates that Ernst & Young  
16 provided.

17 Q. How did going concern affect an actuarial approach  
18 to valuation?

19 A. Again, not knowing the details of how that  
20 actuarial approach is done, my -- my assumption would  
21 be -- and it's really speculation because, again, I don't  
22 know the details of the approach -- would be that going  
23 concern would influence certain estimates they would make  
24 in carrying out that actuarial analysis.

25 Q. That's really what I'm asking. What I'm asking



1 is, if you're doing an actuarial approach, how could  
2 going concern an impact on that?

3 A. So again, this is a little outside my field of  
4 expertise but I would think that.

5 Q. I don't want you to speculate, but if you have  
6 what you think is a reliable answer, I would like to have  
7 that.

8 A. I mean, I think in general whether a firm is going  
9 to continue and do business and get new business or  
10 whether it's not going to continue and will not have that  
11 business would affect things like, for example, estimates  
12 of cash flows that would be generated from the  
13 businesses.

14 Q. Right. But the going concern issue that was  
15 assumed was the parent as a going concern; correct?

16 A. That's correct.

17 Q. It was not the subsidiaries as a going concern;  
18 correct?

19 A. Yes. Although I think, again, this is not really  
20 my core area of expertise here, but I think clearly a  
21 life insurance subsidiary with a name AIG attached to it,  
22 I think there was worry about how those businesses would  
23 do if there was a perception about the parent.

24 Q. What were the life insurance businesses that had  
25 the AIG name?

1           A. So here -- and again, I'm just looking at this  
2 chart, AIG Life Holdings International appears to be one.

3           Q. But AIG Life Holdings International, that is not  
4 an insurance company that sells to anybody, is it?

5           A. And again, I really don't know the details of what  
6 these subsidiaries did. I'm just trying to be responsive  
7 to the question you asked about the methodology.

8           Q. But AIG Life Holdings International, that's a  
9 holding company; correct?

10          A. I honestly don't know.

11          Q. But do you at least know that AIG Life Holdings  
12 International LLC is not a brand that is used in selling  
13 insurance to people?

14          A. I don't know. What I remember being told was that  
15 some of these subsidiaries were life insurance  
16 subsidiaries that were subsidiaries of AIG.

17          Q. Yes. AIG had life insurance subsidiaries.

18          A. Right.

19          Q. My question to you is, is how much business, if  
20 any, was done by life insurance subsidiaries that in  
21 their marketing in their dealing with people, used the  
22 AIG brand as opposed to a different brand.

23          A. I honestly don't know. I just don't know enough  
24 about AIG to answer that question.

25          Q. You do know that AIG's property and casualty

1 business was much more significant in terms of collateral  
2 than AIG's life insurance business; correct?

3 A. I'm not sure that I knew that at the time. I'm  
4 not particularly aware of that now.

5 Q. For example, you're familiar with a AIG subsidiary  
6 calledal lick company?

7 A. I remember the name.

8 Q. Was ail lick company a casualty or a life company  
9 or both?

10 A. Again, I really apologize. I just don't know  
11 enough about these, what these different subsidiaries  
12 were, other than hearing that at the time that many of  
13 them were life insurance subsidiaries.

14 Q. Let me try one more. AIA, is that a company that  
15 you're familiar with?

16 MS. ACEVEDO: Your Honor, I'm going to object.  
17 This is really beyond the scope of my examination.

18 THE COURT: Overruled.

19 THE WITNESS: I don't, I don't know.

20 BY MR. BOIES:

21 Q. You do know that ail lick company and AIA were two  
22 subsidiaries that were ultimately sold?

23 A. I don't. I wasn't aware of that either.

24 Q. Were you responsible for monitoring the collateral  
25 for the AIG credit facility in 2010?

1 A. No, I was not.

2 Q. When did you stop being responsible for monitoring  
3 the collateral?

4 A. My position changed in October 2008. I was moved  
5 out of the leadership position for the financial  
6 management and discount window and made the chief  
7 operating officer for the overall markets and monitoring  
8 and analysis function in the markets group.

9 Q. And that was a promotion?

10 A. Yes.

11 Q. And did your old group now report to you?

12 A. Yes, they did.

13 Q. And since you had -- and did your old group  
14 continue to have responsibility for monitoring the  
15 collateral?

16 A. So they -- as I understand it, there was  
17 responsibility to make sure that the lendable value  
18 estimates we were receiving were sufficient to cover the  
19 loan amount.

20 Q. And did you supervise that enough to --

21 A. I did not closely supervise it, no.

22 Q. So is it fair to say that even though the group  
23 reported to you after October of 2008, you really don't  
24 have any reliable information as to the AIG collateral or  
25 whether it was adequate or not adequate?

1 A. That's very fair.

2 Q. Okay. You talked about the PDCF loan rate?

3 A. Yes.

4 Q. And you said that you had learned after you wrote  
5 some e-mails that both of us have shown you that what you  
6 referred to as a market rate for somebody in AIG's  
7 position would be -- it would be reasonable to have an  
8 850 basis points above LIBOR rate. Do you recall that  
9 generally?

10 A. Yes, I do recall that.

11 Q. From whom did you get that understanding?

12 A. I don't even remember exactly who, but we have  
13 some colleagues in the research group that were familiar  
14 with corporate loan markets and this was really later.  
15 It was not during this period in September 2008 but later  
16 on. So just through conversations.

17 Q. When were those conversations?

18 A. I don't remember exactly when. It could have been  
19 2010. It could have been 2011.

20 Q. And were these people whose names you don't  
21 remember who were having these conversations with you,  
22 were they talking about interest rates applicable to the  
23 period that was contemporaneous with your discussions or  
24 were they talking about the period back in 2008?

25 A. They were talking about 2008.

1 Q. And did they talk about the interest rates that  
2 were being paid by primary dealers for credit that they  
3 got from private sources?

4 A. I don't believe that was part of our  
5 conversations. No.

6 Q. You did know from your own personal experience in  
7 terms of expanding the PDCF to additional collateral for  
8 Morgan Stanley, Goldman Sachs and Citicorp that both  
9 Goldman and -- and I apologize. I said Citicorp. It was  
10 actually Merrill Lynch, wasn't it?

11 A. Yes.

12 Q. Do you recall from your work expanding the  
13 collateral that would be put up by Morgan Stanley,  
14 Goldman Sachs and Merrill Lynch for PDCF loans that both  
15 Morgan Stanley and Goldman Sachs were raising money from  
16 private sources at the same time?

17 A. They may have been. I wasn't aware of that at  
18 that time.

19 Q. Did you have an understanding that the purpose of  
20 allowing them in terms of Morgan Stanley, Goldman Sachs,  
21 to become bank holding companies and to expand the  
22 collateral that they could use for PDCF loans was to  
23 enable them to raise private capital?

24 A. That's not exactly the understanding I had. The  
25 understanding what I had was that they needed liquidity

1 for various unnamed purposes and that they were  
2 experiencing a difficulty in getting that liquidity, and  
3 so that our program we were told was to assist in  
4 providing a temporary source of liquidity until they  
5 could normalize their situation.

6 Q. And by normalize their situation did you mean  
7 raise private capital?

8 A. I'm not sure that that's the -- that's the way in  
9 which it was intended. Certainly that could be  
10 consistent.

11 Q. Let me try to approach it this way.

12 Essentially contemporaneously with the expansion  
13 of the PDCF collateral for Morgan Stanley and others, at  
14 least Morgan Stanley and Goldman Sachs raised private  
15 capital; correct?

16 A. I -- I don't know whether they did or not.

17 Q. Would it refresh your recollection if I suggested  
18 to you that within a week of September 21, Goldman  
19 entered into an agreement with Warren Buffet and by  
20 Warren Buffet I mean his companies?

21 MS. ACEVEDO: Objection, Your Honor, that,  
22 you know, Mr. Boies is testifying here. If he has a  
23 means of refreshing her recollection, the proper way of  
24 doing that is to ask her if he could refresh it, to show  
25 her the document and ask if it refreshed. He shouldn't

1 be talking on the record.

2 THE COURT: I disagree. I think you can use  
3 almost anything to refresh a witness, even saying  
4 something like Mr. Boies is doing.

5 MS. ACEVEDO: Okay. Thank you, Your Honor.

6 THE COURT: Overruled.

7 BY MR. BOIES:

8 Q. Would it refresh your recollection if I suggested  
9 to you that within a week of September 21, Goldman Sachs  
10 had issued a preferred stock to one of Warren Buffet's  
11 companies, bearing a 10 percent interest rate?

12 A. I don't have a recollection of that. I don't  
13 think I was aware of it at the time.

14 Q. You said that you had come to believe that  
15 charging AIG 850 basis points over LIBOR by the  
16 Federal Reserve was appropriate because you had learned  
17 that that is what it would cost AIG to raise private  
18 capital at that time; correct?

19 A. That's what was suggested to me by colleagues.  
20 Yes.

21 Q. And so I'm now suggesting to you that if it would  
22 have cost primary dealers more than the primary credit  
23 rate to raise capital at that time, was it your judgment  
24 that they should be charged a higher rate of interest,  
25 too?



1           A. So I don't think I had a judgment or a view on  
2 that. I think there were other ways in which the higher  
3 rate for AIG did seem to make sense. Again, after the  
4 fact knowing what I came to know.

5           Q. As a lender of last resort, was it your  
6 understanding when you were or your group was giving  
7 input to interest rates that the purpose of the Fed was  
8 to charge interest rates that would have been charged by  
9 a private party?

10          A. No. So I think the approach for -- and I think  
11 we're talking here really about the emergency lending  
12 programs; right?

13          Q. Yes. I'm talking about the 13(3) emergency  
14 lending programs.

15          A. So I think, again, I was not involved in the  
16 decision to set rates for any of these programs. The way  
17 that the primary credit rate was explained to us was that  
18 it was an above-market i.e., spread over Fed funds rate  
19 comparable to penalty rate that was charged to banks in  
20 the discount window program.

21          Q. And is it fair to say that it was your  
22 understanding at the time in 2008 that the so-called  
23 penalty rate to be charged for emergency lending was a  
24 penalty rate that was slightly above the normal noncrisis  
25 interest rate?

1           A. So certainly for PDCF and TSLF our reference was  
2 the Fed funds rate as a market rate and the rate was  
3 slightly above Fed funds.

4           Q. And that reflected your understanding at the time  
5 of how an emergency credit facility ought to be priced;  
6 correct?

7           A. I would not say that. I think that a challenge  
8 throughout the crisis and again not having been involved  
9 in the decision to set any of these rates, I think it was  
10 a regular ongoing topic of conversation. We didn't  
11 really have a theory about pricing of emergency lending.  
12 As you'll remember, we hadn't done this since the 1930s,  
13 very different market environment, very different  
14 situation from the last time that this authority was  
15 used. And I think developments were fast, and you know,  
16 the policymakers needed to get things done, but I think  
17 over time as you can see in the terms of some of the  
18 other 13(3) facilities, there were different approaches  
19 that were used in different situations to set that  
20 penalty.

21           Q. Is it fair to say that there wasn't anything in  
22 writing and there were no established guidelines that you  
23 were familiar with as to how to price a 13(3) loan?

24           A. Not in September 2008, no.

25           Q. And is it the case that all 13(3) loans other than

1 loans to AIG were priced within one and a half percent or  
2 2 percent of, say, plus or minus 2 percent to each other?

3 MS. ACEVEDO: Objection. This is way beyond the  
4 scope of my exam, Your Honor.

5 THE COURT: Overruled. I'll take the answer.

6 THE WITNESS: So I am not -- I'm having trouble  
7 remembering exactly what programs like CPFF and TALF were  
8 priced at. I think it's safe to say that there was not  
9 an equivalent approach or an equal approach for all 13(3)  
10 lending programs. I think the approach evolved over time  
11 and it probably also depended on things like the term of  
12 the loan, the type of the collateral, whether it was  
13 recourse or nonrecourse, so I don't have a good sense  
14 that -- if you're asking that, you know, were the other  
15 loans priced relatively similarly, I don't think that was  
16 the case.

17 BY MR. BOIES:

18 Q. Let me just try to close this, this line out.

19 Would you agree that the interest rate charged AIG  
20 was several times higher than the interest rate charged  
21 any other 13(3) loan?

22 A. Gosh, I don't mean to be nonresponsive. I just  
23 can't remember exactly what the rates were on the TALF  
24 loans and the CPFF loans, so I apologize. I'm not sure I  
25 can answer it.

1 Q. Other than those two loans, is it fair to say that  
2 the AIG loan was priced at an interest rate that was a  
3 multiple of the interest rates charged any other  
4 13(3) loan?

5 MS. ACEVEDO: Objection, Your Honor. If he can  
6 just specify when the time period that he's referring to,  
7 it's a very broad question.

8 MR. BOIES: September of 2008.

9 THE WITNESS: So in September of 2008, certainly  
10 the nominal rate on the AIG facility was higher than the  
11 rate that was being charged this the PDCF and the TSLF,  
12 yes.

13 BY MR. BOIES:

14 Q. Well, with respect to those two, it was more than  
15 four times higher; correct?

16 A. I believe that's correct.

17 Q. Now, counsel asked you in the context of asking  
18 you questions about the undrawn funds charged in the AIG  
19 loan, whether that was a revolving credit facility and  
20 whether there was an undrawn funds amount with respect to  
21 the approximated CV. Do you remember that examination?

22 A. I do remember those questions. Yes.

23 Q. Now, first, with respect to the PDCF, there wasn't  
24 any limit on how much primary dealers could borrow as  
25 long as they came forward with collateral; correct?

1 A. That's correct.

2 Q. With respect to AIG, there was a limit as to how  
3 much they could borrow of \$85 billion even if they came  
4 up with more collateral; correct?

5 A. That's my understanding for the facility. In  
6 September 2008.

7 Q. When you were valuing the collateral for AIG at  
8 the time that you were doing it, you understood that the  
9 values that E&Y were giving you, for example, the  
10 \$104.7 billion value, excluded the value of certain AIG  
11 assets; correct?

12 A. I believe that that's -- yeah, I believe I do  
13 recall that.

14 Q. For example, the \$104.7 billion value did not  
15 include the value of AIG's real estate holdings, aircraft  
16 or noninsurance subsidiaries; correct?

17 A. So I don't remember which assets were not part of  
18 the pledge, but I do recall that there were some and not  
19 all assets.

20 Q. And where had you two possible valuations for an  
21 AIG subsidiary, in terms of arriving at the lendable  
22 value, you would take the lower of the two values;  
23 correct?

24 A. So I think the schedule that we looked at shows  
25 that, yes, we took the lower of the AIG given book value

1 and the outside expert's calculated value.

2 Q. But as a more general proposition, if you had two  
3 possible valuations, whether it came from AIG or  
4 Morgan Stanley or Ernst & Young or some other source, if  
5 you had two valuations for an AIG subsidiary, you would  
6 take the lower of the two values; correct?

7 A. So certainly on September 16 we did appear to have  
8 two different valuations. I don't believe that we had  
9 two valuations after that. I think after that  
10 September 16 we were using first exclusively the  
11 Morgan Stanley and then next exclusively the  
12 Ernst & Young. That's my understanding.

13 Q. As a general proposition, you were always  
14 interested in following a conservative approach to the  
15 valuation of AIG's assets; correct?

16 A. Certainly I think we were interested in being  
17 conservative, yes.

18 Q. And as part of that conservative approach, were  
19 you sometimes confronted with a situation in which had  
20 you two values for something and you would take the  
21 lower?

22 A. So with respect to the AIG loan specifically?

23 Q. Yes. And just for purposes of refreshing your  
24 recollection, let me ask you to look at page 174 of your  
25 deposition.

1 A. 174. I'm sorry. Which tab?

2 Q. It's in the deposition.

3 A. Okay.

4 Q. And do you see the line 12 I asked you.

5 "QUESTION: How did the Federal Reserve System  
6 come up with its value that it attributed to each of  
7 these AIG businesses? Do you see that?

8 A. Yes.

9 Q. And you answer: So as always, we were interested  
10 in following a conservative approach. And then you go on  
11 to talk about how you took the lower of the two values  
12 when you had two values if you had them to choose  
13 between?

14 A. Yes.

15 Q. And would that be an accurate description of how  
16 you would approach a valuation?

17 A. Yeah. I think so.

18 Q. With respect to the AIG insurance subsidiaries,  
19 were you aware at the time that you were considering  
20 AIG's collateral, of the extent to which AIG had received  
21 offers to purchase those subsidiaries in the past?

22 A. I was not aware, no.

23 Q. Did you investigate that at all?

24 A. No.

25 Q. Did you investigate what estimates anybody at AIG

1 or any of the advisors to AIG or to the Federal Reserve  
2 estimated AIG would be able to sell those subsidiaries  
3 for going forward?

4 A. I don't believe so. I think the only information  
5 we got from AIG in those first couple of days was the  
6 book value, the GAAP book value.

7 Q. And I want to expand that not just from AIG but  
8 from any advisor like Morgan Stanley or BlackRock to the  
9 Fed or to American International Group.

10 A. So again if you can just repeat the question.

11 Q. Sure.

12 At any time through the time you changed jobs in  
13 October of 2008, did anyone provide you with any  
14 information concerning what anybody estimated AIG would  
15 be able to sell these insurance subsidiaries for going  
16 forward?

17 A. Not to my recollection, no.

18 Q. And did you ask for any such?

19 A. No.

20 MR. BOIES: Your Honor, I pass the witness.

21 THE COURT: All right. Do you just have a little  
22 bit, Ms. Acevedo?

23 MS. ACEVEDO: Just a little bit, yes.

24 THE COURT: All right. Why don't you go ahead.

25 MS. ACEVEDO: Okay.



1 THE COURT: We're going to try to finish up your  
2 testimony. I find that when we take breaks, like for a  
3 lunch break, the lawyers always think of additional  
4 questions for you, so we're going to get you out of here.

5 THE WITNESS: Sounds good.

6 THE COURT: Okay.

7 THE WITNESS: Thank you.

8 MS. ACEVEDO: I have just a couple questions,  
9 Your Honor.

10 - - - - -

11 **RECROSS-EXAMINATION**

12 BY MS. ACEVEDO:

13 Q. So you were asked about haircuts applied to equity  
14 securities. Do you recall that?

15 A. I do.

16 Q. And earlier we discussed the range that you?

17 A. Yes.

18 Q. And I believe you said it was 20 to as high as 20  
19 to 25 percent; is that right?

20 A. That's right.

21 Q. And did you apply those haircuts as high as 20 to  
22 25 percent to equity securities such as stock?

23 A. Yes.

24 Q. In September 2008?

25 A. Yes. There were at least two borrowers for whom

1 equity securities were haircut at those levels.

2 Q. Okay. And you were asked about the nature of PDCF  
3 collateral pledged by certain banks, and I wanted to talk  
4 about how that compared to AIG's collateral.

5 A. Uh-huh.

6 Q. And in particular with reference to the terms of  
7 the loans. You testified earlier that a PDCF loan is an  
8 overnight loan; is that right?

9 A. That's correct.

10 Q. Do you recall saying that?

11 A. That's correct.

12 Q. Do you know what the term of the AIG loan was?

13 A. I believe the final facility that was agreed on  
14 the evening of the 22nd was a two-year facility.

15 Q. And we talked about collateral risk earlier when  
16 we talked about AIG's collateral.

17 How was the clutter risk for AIG's loan affected  
18 by the duration of the loan, if at all?

19 A. So I think, you know, on any term of the loan as  
20 long as you're able to revalue the collateral each day  
21 and do a new assessment each day of what lendable value  
22 you need to support it, you can feel fairly comfortable.  
23 We obviously since the AIG equity interest and  
24 subsidiaries were not marketable and did not trade with a  
25 kind of a clear observable price, we could not have that

1 same daily what it's called mark to market value process.  
2 So you know, you may have a value that's assigned today,  
3 the farther in the future that you get from today, things  
4 like interest rates, like economic forecasts, like supply  
5 and demand factors in the market can affect the value of  
6 the cash flows that that asset is going to generate and  
7 thus affect the value of the asset and so that's why it's  
8 a very problematic situation if you're lending for a long  
9 term not to be able to regularly revalue that collateral  
10 to make sure and top up as you need to to get the  
11 lendable value you need to support that loan because  
12 again, the importance of the collateral is pretty key.  
13 It's really there to ensure that if the borrower defaults  
14 that we as lender can take that collateral, sell it to  
15 recoup the loan.

16 Q. Now, we also talked about the decision to lend and  
17 I believe you told me that you didn't have any  
18 involvement?

19 A. Yes.

20 Q. In the decision to lend to AIG?

21 A. That's right.

22 Q. Did you have any involvement in determining the  
23 terms of the loan?

24 A. No, I did not.

25 Q. And in particular, did you have any involvement in

1 determining the interest rate that was charged to AIG?

2 A. No, I did not.

3 Q. Now, just now you testified that one of the  
4 differences of AIG's collateral as compared to the  
5 collateral pledged by other entities in connection with  
6 the PDCF was that it was not marketable.

7 A. That's right.

8 Q. And why did you say that?

9 A. There was no kind of publicly traded market for  
10 these instruments as I understand it, so you know, with a  
11 share of IBM stock or Google debt security, you can go  
12 and sell that on an exchange or in an over-the-counter  
13 market any day and just sell that at the market price if  
14 you're willing to take that price. There was no  
15 comparable forum for liquidating these assets readily for  
16 the AIG subsidiary interests.

17 MS. ACEVEDO: Your Honor, I have no further  
18 questions.

19 THE COURT: All right. Thank you.

20 Thank you for your testimony, Ms. McLaughlin. You  
21 are excused.

22 THE WITNESS: Thank you.

23 THE COURT: We'll adjourn for our lunch break and  
24 we'll reconvene at 1:50.

25 **(Whereupon, at 12:50 p.m., a lunch recess was**

1     **taken.)**  
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DRAFT

## A F T E R N O O N   S E S S I O N

(1:51 p.m.)

1                   THE COURT: Are you ready for the next witness?

2                   MR. BOIES: We are. And Your Honor, I have one  
3 small housekeeping matter first. The Court will recall  
4 we had joint Exhibits 80-A and 82-A. These are documents  
5 I've handed out once before, but I will hand out again  
6 since I don't expect anyone has them handy. These are  
7 documents that Mr. Alvarez constructed on the stand and  
8 we then prepared versions that are somewhat easier to  
9 understand. They have now as I understand it been  
10 checked by counsel for defendants.

11                   THE COURT: All right.

12                   MR. BOIES: I believe I can offer them without  
13 objection.

14                   MR. MIZOGUCHI: No objection, Your Honor.

15                   THE COURT: All right. Exhibits JX 80-A and 82-A  
16 are admitted.

17                   **(Joint Exhibit Number 80-A was admitted into  
18 evidence.)**

19                   **(Joint Exhibit Number 82-A was admitted into  
20 evidence.)**

21                   MR. BOIES: We also had a document that I believe  
22 I moved with Chairman Bernanke, Plaintiffs' Trial  
23 Exhibit 974 and the Court will recall that there was some  
24  
25

1 confusion about what that document was, that is, we had  
2 different numbers on different lists. I think we have  
3 reconciled that now, and the document that I used with  
4 the witness as Plaintiffs' Trial Exhibit 974 I think I  
5 can now again offer without objection.

6 THE COURT: All right.

7 MR. DINTZER: Do you have -- oh. Did you hand us  
8 a copy? Because I just want to make sure we're on the  
9 same page now.

10 And I believe it was one that was proffered,  
11 Your Honor, for the first time that there was awning that  
12 it would only be with respect to the truth of the matter  
13 asserted I assume for the truth of the matter with the  
14 witness; is that right.

15 MR. BOIES: It's the truth of the matter asserted  
16 with respect to government personnel. With respect to  
17 nongovernment personnel, that is offered only for  
18 context.

19 MR. DINTZER: And just so it's clear, we're  
20 assuming that government personnel includes people from  
21 the executive branch and not the congressional branch.

22 MR. BOIES: That's what I meant. I meant the  
23 executive branch.

24 MR. DINTZER: Then we do not object along those  
25 lines, Your Honor.

1 THE COURT: All right. Plaintiffs' Trial  
2 Exhibit 974 is admitted with the noted restrictions.

3 (Plaintiff's Exhibit Number 974 was admitted into  
4 evidence.)

5 THE COURT: Okay.

6 MR. BOIES: We are now prepared to call our next  
7 witness, Your Honor, Ms. Margaret McConnell.

8 THE COURT: All right. Very well.

9 Hopefully she's in the vicinity.

10 THE COURT: Please come forward, ma'am. We have  
11 the witness box just to my left.

12 - - - - -

13 Whereupon --

14 **MARGARET McCONNELL**

15 a witness, called for examination, having been first duly  
16 sworn, was examined and testified as follows:

17 **DIRECT EXAMINATION**

18 BY MR. BOIES:

19 Q. Good afternoon, Dr. McConnell. We haven't met,  
20 but I suspect somebody has told you I'm David Boies and I  
21 represent the plaintiffs in this action correct?

22 A. Yes.

23 Q. You should have up there two binders. One is a  
24 binder of some documents that I may use with you over the  
25 course of the examination.



1 A. Okay.

2 Q. And second is a binder of your deposition  
3 transcript.

4 Q. In 2 document binder we have excerpts of  
5 documents. If at any time you would like to see the  
6 entire document for context, please let me know, and I  
7 will -- I'll furnish it to you.

8 Also if I ask any questions that you don't  
9 understand or that you find ambiguous, let me know, and  
10 I'll rephrase the question.

11 A. Okay.

12 Q. What is your current position?

13 A. I'm is a senior vice president and the director of  
14 our Office of Financial Stability and Regulatory Policy.

15 Q. And what was your position in 2007 and 2008?

16 A. I was then the deputy chief of staff for policy,  
17 so I worked directly for the president of the bank.

18 Q. And that was Mr. Geithner.

19 A. Yes.

20 Q. And after Mr. Geithner left, what was your  
21 position?

22 A. I think I was -- I had that title until 2011 when  
23 we -- we put this office in place and I became the  
24 director of the office, so I think I was still deputy  
25 chief of staff of policy.

1 Q. When did you first become involved with evaluating  
2 AIG?

3 A. I don't know that I was ever involved in  
4 evaluating AIG. I became involved in the sort of the  
5 bank's work around that time most my memory is mainly  
6 just in the weekend leading up to that crisis that I  
7 really was focused particularly on AIG.

8 Q. Before you began to focus primarily on AIG, you  
9 had focused on AIG as one of a number of companies that  
10 you were or the Federal Reserve was concerned about;  
11 correct?

12 A. Yes.

13 Q. And there was somebody who has been previously  
14 identified as Kevin Coffey. Do you recall him?

15 A. Right.

16 Q. And Mr. Coffey from time to time sent you  
17 materials on AIG in August of 2008; is that correct?

18 A. Yes. .

19 Q. And if you would look at Plaintiffs' Trial  
20 Exhibit 1449?

21 A. I may not be very speedy in finding this. 1449.

22 Q. And which I would offer?

23 MS. GERBER: No objection, Your Honor.

24 THE COURT: Plaintiffs' Trial Exhibit 1449 is  
25 admitted.

1                   **(Plaintiff's Exhibit Number 1449 was admitted into**  
2 **evidence.)**

3                   BY MR. BOIES:

4                   Q. When you have the document, let me know.

5                   A. I think I do. ?

6                   Q. This is an e-mail that you along with a number of  
7 people received from Mr. Coffey on August 14, 2008;  
8 correct?

9                   A. Yes.

10                  Q. And did you have any discussions with anyone about  
11 this document?

12                  A. I don't recall having any discussions.

13                  Q. Let me ask you to look at Plaintiffs' Trial  
14 Exhibit 37, which is already in evidence.

15                  A. Yes, I have it.

16                  Q. And this is two e-mails and an attachment. Both  
17 e-mails are from you to Mr. Geithner, one dated  
18 September 4 and one dated September 6. Do you see that?

19                  A. Yes.

20                  Q. And you were forwarding to Mr. Geithner something  
21 that had been prepared and sent to you and which is  
22 attached as pages 2 and 3 of this exhibit; correct?

23                  A. Yes.

24                  Q. Who had prepared the attachment?

25                  A. I believe this attachment was prepared by

1 Kevin Coffey or Kevin -- someone on Kevin Coffey's team.

2 Q. And why did you forward it not once but twice to  
3 Mr. Geithner?

4 A. In looking at this, I -- I think the reason I  
5 forwarded it once, the first time was in the context of  
6 a -- this case study related on this committee on  
7 regulatory reform. I think I recall that AIG was one of  
8 the types of nonbank financial institutions that the  
9 committee was going to discuss and so I think I forwarded  
10 it just as -- I didn't really know what Mr. Geithner knew  
11 about AIG and I think I probably just forwarded it adds  
12 an FYI to him.

13 And then the second time I forwarded it because he  
14 had -- he had asked somebody to be -- to put -- he asked  
15 the head of supervision to put somebody on AIG and GE and  
16 so my second forward was just to remind him that we  
17 already had people monitoring.

18 Q. And when you said to remind him that we already  
19 had people monitoring, you mean monitoring AIG?

20 A. Well, monitoring a whole -- a whole host of  
21 nonbank financial institutions and I think it was --  
22 there's another e-mail that I -- I don't know where it is  
23 but just where he asked can you put somebody on AIG and  
24 GE. I think I was being a little bit -- I don't know  
25 what the term is, but I just forwarded it this just

1 basically saying, you know, we -- there are people in the  
2 bank who are already tracking this and so your request  
3 was a little redundant or something.

4 Q. You mentioned a Federal Reserve committee on  
5 regulatory reform a moment ago. Do you recall that?

6 A. Yes.

7 Q. Let me ask you to look at Plaintiffs' Trial  
8 Exhibit 36, which I would offer.

9 MS. GERBER: No objection.

10 THE COURT: Plaintiffs' Trial Exhibit 36 is  
11 admitted.

12 **(Plaintiff's Exhibit Number 36 was admitted into**  
13 **evidence.)**

14 BY MR. BOIES:

15 Q. This is an e-mail from -- the top one is from  
16 Mr. Geithner to you and there are additional e-mails that  
17 are talking about the next committee on regulatory reform  
18 conference call. Do you see that?

19 A. Yes.

20 Q. And did you participate in regular committee on  
21 regulatory reform conference calls?

22 A. I don't recall participating in regular -- I don't  
23 recall this committee. I mean, I see it here and I now  
24 remember that -- but I actually I don't -- I don't  
25 remember exactly what this committee did and how often it

1 met. So I'm not sure if I participated in multiple or  
2 even in this discussion. Because I wasn't the member.  
3 President Geithner was.

4 Q. Is this the same committee on regulatory reform  
5 that you mentioned a moment ago in answer to a question  
6 when I was asking you why you were --

7 A. Could you remind me.

8 Q. Forwarding something on and you said because you  
9 thought it might relate to the committee on regulatory  
10 reform?

11 A. Could you -- so if this is the one where there's  
12 some mention of AIG in the case study --

13 Q. It was where you were forwarding on something that  
14 had been prepared by Mr. Coffey or his group.

15 A. Could you remind me what number that was just so I  
16 can --

17 Q. Plaintiffs' Trial Exhibit 37.

18 A. Okay. Thanks.

19 So -- so that was September 6. Then this -- so it  
20 wouldn't have been -- it wouldn't have been for this  
21 call. I -- well, I don't know. So 829 is maybe it was  
22 for this -- maybe it was for that call. Yes. I'm sorry.  
23 I forgot what your question was. I think I...

24 Q. I asked you why you forwarded on not once but  
25 twice Mr. Geithner?

1 A. Uh-huh.

2 Q. Do you recall that?

3 A. Yes.

4 Q. And you said you thought the reason you forwarded  
5 it once the first time was in the context of this case  
6 study related to the committee on regulatory reform.

7 A. Yes.

8 Q. Do you recall that?

9 A. Yes.

10 Q. Now, this is the same committee on regulatory  
11 reform that you were referring to, correct?

12 A. Yeah. I was just reading this from the subject  
13 line here. I don't remember doing that, but yes, it  
14 looks like he was going to be participating in this call  
15 and so I sent him what I could find on AIG because AIG  
16 was mentioned I think in the case study number 2 that the  
17 committee was going to discuss.

18 Q. And is it your testimony that you did not  
19 participate in the work of the committee on regulatory  
20 reform?

21 A. I just don't remember. I may have sat in on the  
22 calls with President Geithner sometimes, but I don't -- I  
23 just don't remember.

24 Q. Okay. Let me ask you to look at Defendant's  
25 Exhibit 231.

1 A. Sorry. 231?

2 Q. 231. Defendant's Exhibit 231?

3 A. And that's in the same binder?

4 Q. Yes. The Plaintiffs' Exhibits are in the  
5 beginning and the Defendant's Exhibits are in the back.

6 A. This isn't supposed to be the hard part. Okay. I  
7 have it.

8 Q. My first question to you is, do you recognize this  
9 document?

10 A. Yes, I do.

11 Q. Are these your notes?

12 A. So maybe I -- so -- sorry. Again, I was on the  
13 wrong one. So it's the one after the tab. Anyway, I'm  
14 going to do that again but I recognize these and yes,  
15 they are my notes.

16 Q. And were these notes that you took of a meeting or  
17 telephone conference on September 9, 2008?

18 A. They don't look to be. They look to be a list of  
19 some sort. Sometimes my notes were to-do lists. Then  
20 I -- if somebody started talking about things, I started  
21 writing other things in there but since they're numbered  
22 from this I don't think there from -- I don't think there  
23 from a particular call or meeting.

24 Q. So these would have been notes that you took on  
25 September 9, 2008; correct?



1 A. Yes. I -- yes.

2 Q. And can you read your note number 12.

3 A. Yes. Willumstad: Whether AIG should become a  
4 primary dealer have Tom and Bill Dudley get meet and get  
5 back to them.

6 Q. First, who is Tom?

7 A. I assume it's Tom Baxter, our general counsel.

8 Q. And was this an instruction from Mr. Geithner?

9 A. I can't say for sure. In all likelihood, yes.

10 Q.

11 MR. BOIES: Your Honor, I would offer Defendant's  
12 Exhibit 231.

13 MS. GERBER: No objection.

14 THE COURT: Defendant's Exhibit 231 is admitted.

15 **(Defendant's Exhibit Number 231 was admitted into**  
16 **evidence.)**

17 BY MR. BOIES:

18 Q. Let me ask you also to look next at Defendant's  
19 Exhibit 280 that is already in evidence.

20 A. Okay.

21 Q. And this is two e-mails dated September 13, 2008.  
22 There is an initial e-mail at 7:26 p.m. from  
23 Patricia Mosser to you and a number of other people. Do  
24 you see that?

25 A. Yes.

1 Q. And one of the questions that was contained there  
2 in the third paragraph under AIG, do you see where it  
3 says AIG asked our views on whether and how to inform  
4 Treasury Department of their situation. I have not done  
5 so, but wanted to get other input on the best way to do  
6 this? Do you see that?

7 A. Yes.

8 Q. And you respond, a little while later, I will see  
9 what I can find out on Treasury and AIG. Do you see  
10 that?

11 A. Yes.

12 Q. What did you find out on Treasury and AIG?

13 A. I don't remember.

14 Q. Did someone get back to AIG and tell AIG what your  
15 views were as to whether and how to inform the  
16 Treasury Department of what was going on?

17 A. I don't remember.

18 Q. There were conversations between personnel at the  
19 Federal Reserve Bank of New York and personnel at the  
20 Treasury Department about the AIG situation this weekend  
21 of September 13; correct?

22 A. Yes. I think that's fair to say, yeah.

23 Q. And at any time was AIG brought into the  
24 discussions between the Federal Reserve Bank and  
25 Treasury?

1 A. I don't know.

2 Q. You did send this e-mail on September 13; correct?

3 A. Yes. I suspect I was just trying to -- I just  
4 probably skimmed through for anything that I needed to --  
5 that I would follow up on particularly, so I probably  
6 tried to ask either chief of staff or President Geithner  
7 what -- how this should be handled. That's -- but I  
8 don't recall what I found out or even if I did it. I  
9 tried to do it, so I probably did it, but I don't  
10 remember.

11 Q. During this weekend of September 13 and 14, did  
12 you have any conversations with Mr. Dinallo?

13 A. I don't remember if I did during that weekend in  
14 particular. I have had at some point had conversations  
15 with him.

16 Q. And you understood the weekend of September 13 and  
17 14 that Mr. Dinallo was the insurance commissioner of  
18 New York; correct?

19 A. Yes.

20 Q. Let me ask you to look up -- to look at  
21 Defendant's Exhibit 351, which I would offer.

22 MS. GERBER: No objection.

23 THE COURT: Defendant's Exhibit 351 is admitted.

24 **(Defendant's Exhibit Number 351 was admitted into**  
25 **evidence.)**

1 BY MR. BOIES:

2 Q. And the earliest e-mail in this e-mail chain is an  
3 e-mail from Patricia Mosser to you, Michael Silva and  
4 Michael held. Do you see that?

5 A. Yes.

6 Q. And the subject is Dinallo?

7 And Ms. Mosser writes to you I'm trying to set up  
8 a call with him and his staff at AIG for early afternoon.  
9 Understand he is talking to Tim right now."

10 And then you respond to that, I will brief you,  
11 but my sense is that any conversation between Dinallo and  
12 Tim for the moment at least, will focus on some kind of  
13 immediate 'consortium' solution. On the other hand I  
14 think what you will be discussing with Dinallo (and what  
15 Tim cares very much about) are the following: 1 how does  
16 bankruptcy get triggered and evolve for the firm in the  
17 event it occurs? 2, what does the market impact look  
18 like? Where and when will it be most acute? 3 what  
19 other firms are moved closer to the brink by their  
20 bankruptcy?"

21 Do you see that?

22 A. Yes.

23 Q. Now, did you ever receive any response to the  
24 inquiry as to what other firms are moved closer to the  
25 brink by an AIG bankruptcy?

1           A. I don't recall whether I did or any -- I'm not --  
2 I'm not sure whether any specific response came in to  
3 this, but I just don't remember.

4           Q. Was there a general understanding on September 15  
5 that if AIG filed for bankruptcy, it would imperil or  
6 bring to the brink, in the language that you have here, a  
7 number of other firms?

8           A. I don't know if it was a general understanding. I  
9 think my understanding in writing this was probably to  
10 make sure that Trish, whatever Tim and -- or Dinallo were  
11 talking about was a separate conversation from the kind  
12 of conversation that Trish should be having, so I think I  
13 was trying to steer her towards a I want to say generic  
14 description of the kinds of things that we were trying to  
15 understand about everything that was happening at that  
16 time, so I don't think I had a -- I don't think I had a  
17 particular like oh, exactly which firms but more what  
18 types of firms are moved closer to the brink, so this --  
19 this definitely wasn't a request for a list of any  
20 specific exposures or things like that.

21           Q. At any time during September 15 or September 16,  
22 were you aware of any discussions within the  
23 Federal Reserve Bank that you participated in relating to  
24 what the effect of an AIG bankruptcy would be on other  
25 firms?

1           A. I'm not. Not specific firms, but on the financial  
2 system, which would be transmitted through -- through  
3 firms, other firms I'm sure.

4           Q. Yes. And I meant to make exactly the distinction  
5 you made, which is, you're obviously talking about what  
6 the effect of an AIG bankruptcy would be on the financial  
7 system generally.

8           A. Yes.

9           Q. But was there -- what I was asking really was, was  
10 there any focus on what the effect would be on particular  
11 firms?

12           A. I don't know whether other people talked about  
13 that and I -- I don't recall any particular firm being  
14 any piece of or what we were trying to understand.

15           Q. Let me ask you to look next at Defendant's  
16 Exhibit 397, which I would again offer.

17           MS. GERBER: No objection.

18           THE COURT: Defendant's Exhibit 397 is admitted.

19           **(Defendant's Exhibit Number 397 was admitted into**  
20 **evidence.)**

21           BY MR. BOIES:

22           Q. The portion I want to direct your attention to  
23 first is the Boesky e-mail to you and a number of other  
24 people on September 16, 2008 at 7:33 a.m.

25           Do you see that?

1 A. Yes.

2 Q. And it says, "Head of Citi FX and that's foreign  
3 exchange; is that correct?"

4 A. I assume so.

5 Q. Head of Citi foreign exchange just called to tell  
6 me that unsecured funding market is shut down.

7 Do you see that?

8 A. Yes.

9 Q. And do you recall being informed of that the  
10 morning of September 16?

11 A. No. Not -- not specifically.

12 Q. He goes on, "Major banks have stopped giving  
13 quotes to each other. And some have stopped picking up  
14 their phones."

15 Do you see that?

16 A. Yes.

17 Q. And do you recall being informed of that on  
18 September 16?

19 A. No.

20 Q. Do you recall being informed of any of the things  
21 that he writes in this e-mail on or about September 16?

22 A. Just so -- just to clarify, Hayley is a woman. I  
23 do -- I -- this was the kind of -- so Hayley worked in  
24 the markets group and and she was always talking to the  
25 market participants all the time and always kind of

1 giving us the color she was getting from them. I  
2 definitely remember Hayley when I saw an e-mail from  
3 Hayley I would read it to understand what she was  
4 learning, but at times I wasn't -- I would feel like  
5 wasn't really sure whether, you know, she was -- she was  
6 talking directly to market participants who might be  
7 talking to their own book so I didn't always take this as  
8 factual but I don't -- I just don't remember these  
9 particular items of information. But this is not unlike  
10 the kind of information we were getting in a lot of  
11 different contexts at that time.

12 Q. Is it fair to say that what she tells you in this  
13 e-mail is the kind of thing that you were generally being  
14 told but you don't remember her telling you this or any  
15 of the specifics that are here?

16 A. Yes. This is the kind of market color that we  
17 would -- that Hayley and people like Mike McMorrow and  
18 Steve Friedman would provide to me because they monitor  
19 the markets and talk to people a lot.

20 Q. But I take it from what you've said you don't  
21 recall anybody informing you of these specific things on  
22 or about September 16.

23 A. No, I don't.

24 Q. Let me ask you to look at Plaintiffs' Trial  
25 Exhibit 85, which is already in evidence.



1           This is a cover e-mail from Alex Sandra Merle to  
2 you and some other people. The subject is latest  
3 document Meg working on and there is then an attachment.  
4 Do you see that?

5           A. Yes.

6           Q. What is this attachment that comprises pages 2  
7 through 6 of this exhibit?

8           A. I don't know exactly. I think it's some mix of --  
9 sometime when I was sitting in on certain meetings where  
10 I brought my laptop and was typing -- trying to type as  
11 quickly as I could to follow -- I don't -- I don't -- the  
12 first two pages are not really page 2 of 6 and 3 of 6 I  
13 don't recall and the top of page 4 of 6 I don't recall.  
14 The rest I think is some mix of conversations that --  
15 that President Geithner, maybe some of our public  
16 communications people Q&A like talking through what it is  
17 that we -- how we explain what's going on and what we're  
18 doing, so where the text is really just continuous,  
19 that's just -- it's not Virginia wolf. That's just me  
20 typing everything that was being said. I don't know  
21 where the other pieces of this or what -- owe when they  
22 were typed. Not a very clear answer.

23           Q. Let me go back to the first page of what you were  
24 working on, which is page 2 of Plaintiffs' Trial  
25 Exhibit 85.

1 A. Uh-huh.

2 Q. It starts out allowing AIG to default poses  
3 systemic risks through its impact on a range of critical  
4 money and capital markets. Primary objective right now  
5 is to prevent further contagion.

6 Do you see that?

7 A. Yes.

8 Q. Was that your conclusion or was that somebody  
9 else's conclusion?

10 A. I think I'm typing what somebody is saying.

11 Q. Do you know who said that?

12 A. I don't.

13 Q. Was it somebody at the Federal Reserve Bank?

14 A. I just don't remember when these -- it probably  
15 was. It was probably somebody at the Federal Reserve  
16 Bank of New York, but it could have been someone on the  
17 phone, too, at the Board of Governors, probably nobody  
18 else, but...

19 Q. The next paragraph begins H P B B?

20 A. Uh-huh.

21 Q. And that stands for Hank Paulson and Ben Bernanke;  
22 correct?

23 A. Yes.

24 Q. And then it goes on to say we don't have authority  
25 to deal with unwinding of large complex financial

1 institution. Because this is systemic we are providing a  
2 substantial lending facility to AIG to enable the firm  
3 under new management to put in place comprehensive  
4 program of restructuring, leaving firm in current form.

5 Do you see that?

6 A. Yes.

7 Q. Is this something that you were writing down that  
8 someone else was saying or was this something that you  
9 were concluding?

10 A. I believe it's something that someone else was  
11 saying.

12 Q. Who?

13 A. I don't know.

14 Q. Someone at the bank? Is that fair?

15 A. Again, probably unless we were on the phone. But  
16 it sounds like, yeah, the H P B B is not I don't think  
17 it's them speaking I think it's probably some reference  
18 to as they've said or something, so I think this was  
19 trying to talk through the public communication aspects  
20 of what we were doing.

21 Q. The next paragraph begins the most important risk  
22 is systemic. If this continues unabated greater  
23 probability of widespread insolvencies, severe and  
24 protracted damage on the financial system and to the  
25 whole economy. This is not something the market can

1 solve on its own.

2 Is that something that you concluded or you're  
3 reporting what somebody else said?

4 A. Again, my -- my -- I'm pretty sure it's something  
5 someone else said, but it's just doesn't not the way I  
6 would write it and also I remember the reason I was  
7 typing this was to try to get down these talking points,  
8 these kind of talking points.

9 Q. The next sentence says absent a forceful policy  
10 response, the consequences would be lower incomes for  
11 working families, higher borrowing costs for housing,  
12 education and the expenses of everyday life, lower value  
13 of retirement savings and rising unemployment."

14 Do you see that?

15 A. Yes.

16 Q. And again, was that something that you were  
17 writing that somebody else had said?

18 A. I believe so.

19 Q. And --

20 A. But I don't remember.

21 Q. But you don't remember who. But it was presumably  
22 somebody at the Federal Reserve Bank or working with the  
23 Federal Reserve Bank; fair?

24 A. Yes, that's fair.

25 Q. And two paragraphs down, the sentence that says no

1 alternative to protect the broader system, do you see  
2 that?

3 A. Yes.

4 Q. And would your answers be the same with respect to  
5 that?

6 A. Same, yes.

7 Q. Now, I want to direct your attention to something  
8 at the top of page 3 of the exhibit, the second  
9 paragraph, where it says come in big enough to put out  
10 the fire take the time pressure off. Maximum flexibility  
11 comes ahead of all the senior debt outstanding wiping out  
12 the shareholders. Find CEO and board. Or let it go but  
13 very bad mistake."

14 Do you see that?

15 A. Yes.

16 Q. Now, that is something that somebody else said;  
17 correct?

18 A. Presumably not exactly because it's kind of  
19 incoherent, but that's what I think still here I was  
20 trying to type what somebody else was saying.

21 Q. Now, is that something that you recall who was  
22 talking?

23 A. No.

24 Q. Do you recall whether that was Mr. Geithner or  
25 not?

1 A. Do I recall whether it was Mr. Geithner?

2 Q. Yes.

3 A. I do not recall whether it was Mr. Geithner.

4 Q. Let me ask you to turn to Plaintiffs' Trial  
5 Exhibit 147, which I would offer.

6 MS. GERBER: Once the foundation is laid, we'll  
7 have no objection.

8 BY MR. BOIES:

9 Q. These are your notes; right?

10 A. Yes, they are.

11 MS. GERBER: No.

12 THE COURT: All right. Plaintiffs' Trial  
13 Exhibit 147 is admitted.

14 **(Plaintiff's Exhibit Number 147 was admitted into**  
15 **evidence.)**

16 BY MR. BOIES:

17 Q. Are these your notes of a call on September 18,  
18 2008 that included Mr. Paulson, Mr. Bernanke,  
19 Mr. Geithner and somebody else?

20 A. Yes. I think so. They're --

21 Q. Who is the fourth participant?

22 A. I believe it was Chris Cox, the chair of the SEC.

23 Q. Can you read your notes on the first four lines  
24 here.

25 A. The first four lines on this page?

1 Q. Of your notes.

2 A. Okay.

3 Could we ask for and achieve two-day stay by the  
4 rating agencies? H P: Yes, so presumably I meant Hank  
5 Paulson said yes and Chris Cox said we're looking at the  
6 law right now.

7 Q. Then at the very bottom on the page there is  
8 something where you've written TFG, which stands for  
9 Mr. Geithner; correct?

10 A. Yes.

11 Q. And then a colon and can you read what's after the  
12 colon?

13 A. We're going in for two days to get legislation, so  
14 can we say through authority moral suasion that they  
15 announce they're deferring two days.

16 Q. When Mr. Geithner said we're going in for two days  
17 to get legislation, is that the TARP legislation that he  
18 was referring to?

19 A. I believe so.

20 Q. Then at the top of page 2, would you read the  
21 first five lines of your notes.

22 A. On the basis of what we're working on -- I don't  
23 know if that's -- that doesn't necessarily follow but if  
24 rating agencies say lower Morgan, I think Morgan Stanley,  
25 Goldman Sachs, Merrill, then they don't make it through

1 the weekend and we're doing AIG for all of them.

2 Q. Was that something that somebody said?

3 A. I believe so.

4 Q. Was that something that Mr. Geithner received  
5 continuing over from the prior page?

6 A. I believe so. But I -- no, I don't know if it  
7 continues from the prior page, but I -- I think he's  
8 continuing to make the case for having the rating  
9 agencies not downgrade these firms.

10 Q. And what Mr. Geithner is saying here is, if the  
11 rating agencies do downgrade Morgan Stanley,  
12 Goldman Sachs and Merrill Lynch, then they won't make it  
13 through the weekend; correct?

14 A. I think -- yes.

15 Q. And he then says, "And we're doing AIG for all of  
16 them.

17 Do you see that?

18 A. Yes.

19 Q. What did you understand that to mean at the time?

20 A. I believe I understood it to mean AIG in quotes  
21 meaning we're bailing them all out.

22 Q. That is, AIG is being used here as a model.

23 A. Yes.

24 Q. Let me ask you to look at Plaintiffs' Trial  
25 Exhibit 68.



1 A. Okay.

2 Q. And are these your notes of a September 15, 2008  
3 telephone call?

4 A. Yes.

5 Q. I would offer Plaintiffs' Trial Exhibit 68.

6 MS. GERBER: No objection.

7 THE COURT: Plaintiffs' Trial Exhibit 68 is  
8 admitted.

9 **(Plaintiff's Exhibit Number 68 was admitted into**  
10 **evidence.)**

11 BY MR. BOIES:

12 Q. Who participated in this call?

13 A. I don't know for sure. I think this was a set of  
14 calls that -- I feel like there was a point late in the  
15 day on the 15th or 16th -- I don't know if this date is  
16 right -- where we broke up into Fed, Treasury and  
17 New York Fed and the board and the Treasury all broke up  
18 into teams to kind of talk through -- I think do some  
19 kind of -- I remember just like scenarios or people like  
20 divided up the work to understand what -- what we're  
21 working through, so I think on this call might have just  
22 been me with -- well, I don't know just, but I was on it  
23 probably because I was writing, Tony Ryan and Don Kohn I  
24 think it seems like Tim probably Geithner probably wasn't  
25 on this call.

1 Q. And who is Mr. Ryan?

2 A. He was -- I don't remember what exactly at  
3 Treasury at that time. Secretary for domestic finance.  
4 I really -- I don't recall what his role was exactly.

5 Q. And Mr. Kohn was vice chairman of the  
6 Federal Reserve Board of Governors.

7 A. Yes.

8 Q. Let me ask you to look at the two lines that  
9 follow your description of what Jester thinks. Do you  
10 see that?

11 A. Yes.

12 Q. And have you written there is no liquidity  
13 solution without Federal Reserve arsenal?

14 A. In our Federal Reserve arsenal.

15 Q. There is no liquidity?

16 A. There is no liquidity.

17 Q. Solution in our Federal Reserve arsenal.

18 A. Yes.

19 Q. Who said that?

20 A. Not Jester.

21 Q. Not Jester?

22 A. Because I broke the line and I did -- I did try to  
23 do that like jump from -- so I probably didn't finish  
24 writing what he was writing and wrote that, but I  
25 don't -- I don't know who said it. But I do -- it was --

1 Jester wouldn't have said our Federal Reserve arsenal.  
2 Or I would have written a snide comment somewhere if he  
3 had, so I don't think it happened.

4 Q. So this would -- this would have been something  
5 that would have said either by Mr. Ryan or  
6 Vice Chairman Kohn?

7 A. Not Tony Ryan either since he was Treasury, but  
8 Vice Chairman Kohn or if someone else from the board was  
9 on the call or the New York Fed.

10 Q. So assuming this was a call with you, Mr. Ryan and  
11 Mr. Kohn, this is something that Vice Chairman Kohn  
12 presumably would have said; is that fair?

13 A. Again, I don't know whether there were -- there  
14 were other staff, so probably those were -- Ryan and Kohn  
15 were the more senior people on it, but I just -- I  
16 wouldn't know who else was on the call.

17 Q. Okay.

18 A. So I don't know the that I want to say that he  
19 said that.

20 Q. Was Mr. Geithner on this call?

21 A. I don't think so.

22 Q. This is a call that you have dated as  
23 September 15, 2008 at 9:05.

24 Do you see that?

25 A. Yes.

1 Q. And I take it that when you did that, you were  
2 accurately recording the date and time that something  
3 took place.

4 A. I was trying to.

5 Q. Now, do you recall whether this took place at 9:05  
6 in the morning or 9:05 in the evening?

7 A. I recall that it was late, so I -- I -- so I --  
8 I'm not sure. I would have said in the evening, but I  
9 also felt like it was like midnight or something when we  
10 were doing these breakout groups, so I don't know, but in  
11 the evening is my -- my guess.

12 Q. Let me continue with the notes.

13 Going over to the second page of the notes?

14 A. Uh-huh.

15 Q. In the left-hand column, there's a reference to so  
16 far I can't Allison.

17 Do you see that?

18 A. Yes.

19 Q. It says so far I can't Allison did a side by side  
20 what does that refer to?

21 A. I don't -- I don't know. Names don't ring a bell  
22 and nor does the side-by-side, so I don't know.

23 Q. And then there's a -- after 1, 2, 3, there's a  
24 line that says instead of saying preferred stock, say --  
25 do you see that?

1 A. Yes.

2 Q. What does that relate to?

3 A. I don't know. I don't know what this -- whether  
4 this is the -- this doesn't seem to me to be the same  
5 call or the same -- since I retitled it, but I -- but  
6 possibly it was. I -- it could be somebody doing a quick  
7 market update on what was going on but then instead of  
8 saying -- I don't know. I don't know.

9 Q. This is also dated September 15, 2008; correct?

10 A. Yes.

11 Q. Do I understand what you're saying is this may be  
12 a separate call from the September 15, 2008 call that is  
13 recorded on page 1 of Plaintiffs' Trial Exhibit 68?

14 A. It could be.

15 Q. And would you believe that page 3 of this exhibit  
16 also relates to a different call?

17 A. It could. It could. It could be that there were  
18 teams I know we broke into these teams and so Hoyt and  
19 Ken Wilson were from Treasury. Pat is Pat Parkinson, so  
20 that might have been another call I was sitting in on.

21 Q. Do you know what the reference was to preferred  
22 stock here on September 15, 2008? ?

23 A. No.

24 Q. Down at the bottom / (, three lines from the  
25 bottom?

1 A. Uh-huh.

2 Q. Ask you read that line?

3 A. Oh, that one.

4 Stop Dinallo from taking assets out of the subs to  
5 support the subs with the bad assets.

6 Q. This is on page 3 of Plaintiffs' Trial Exhibit 68;  
7 correct?

8 A. Yes.

9 Q. This was on a call that you had on September 15  
10 that included Ken Wilson; correct?

11 A. Probably.

12 Q. And Mr. Hoyt; correct?

13 A. I think so.

14 Q. And then there's a reference to Pat. Do you see  
15 that?

16 A. Yes.

17 Q. Who is Pat?

18 A. Pat Parkinson from the Board of Governors  
19 probably -- most likely.

20 Q. And point number 1 in these notes is buying  
21 preferred and warrants.

22 Do you see that?

23 A. Yes.

24 Q. Who was buying preferred and warrants?

25 A. I don't know. Again, I think these were -- I'm

1 not sure what the phrase is. We -- this was a -- we were  
2 kind of breaking into teams to talk through the options  
3 that were in front of us, and so I think people were  
4 assigned different types of options, so it sounds like  
5 they're trying to think through the difference between  
6 putting preferred into the firm and buying bad assets out  
7 of the firm, but I -- I really don't know as you can see,  
8 I don't -- there wasn't much -- I don't have much around  
9 it, so I'm just not -- I don't remember.

10 Q. Was one of the options that was being considered  
11 on September 15 having the Federal Reserve buy preferred  
12 and warrants?

13 A. Not necessarily the Federal Reserve. Treasury was  
14 doing this call as well, so I just -- maybe the U.S.  
15 government writ large. I'm not sure.

16 Q. Was one of the options that was being considered  
17 on September 15 having some part of the U.S. government  
18 buy preferred and warrants?

19 A. I -- I mean, I guess there were only a limited  
20 number of ways that we understood to stabilize a company,  
21 so putting equity in there versus -- I don't know what  
22 the warrants have to do with it frankly, but buying  
23 preferred I assume as an equity injection versus taking  
24 the bad assets -- buying the bad assets off the books,  
25 and that was kind of a perennial discussion during these

1 months of the best way to address a firm that was having  
2 a run.

3 Q. And just to be sure I understand, one of the ways  
4 of doing that would be to buy the bad assets, and I take  
5 it that's what was done in Bear Stearns?

6 A. Yes. Though not from Bear Stearns. We bought  
7 them from JPMorgan, so yes, I don't know if that matters  
8 but yes.

9 Q. And the way JPMorgan got them was by taking over  
10 Bear Stearns.

11 A. Yes. Exactly.

12 Q. And another way would be to buy preferred;  
13 correct?

14 A. To inject sort of capital like we did under TARP.  
15 I assume that was the -- that's roughly what this is  
16 referring to, though again I don't know how warrants  
17 factor in, but.

18 Q. That was going to be my next question.

19 A. Yeah. This is running into the limits of my  
20 finance knowledge, unfortunately, so it doesn't make  
21 sense to me now thinking about it exactly what that would  
22 mean, buy preferred plus warrants, but I guess it's just  
23 another way of taking an equity interest.

24 Q. Let me go back to page 2 of this exhibit, which  
25 appears to be a different call than page 3 and may be a



1 different call from page 1.

2 Beneath this line where I referred you where  
3 you've mentioned preferred stock, can you read the next  
4 two lines.

5 A. Do we have the authority under our current regime  
6 can we buy time?

7 Q. Do you know who said that?

8 A. No, I don't.

9 Q. Let me go down to the last three lines on page 2.  
10 Can you read those?

11 A. Yeah. Senior preferred plus big warrant. It  
12 seems to be one bullet and then the other is buy bad  
13 assets at market.

14 Q. And again, recognize this may be a different call  
15 probably is a different call from page 3, is that a  
16 consideration of the two same options that you're talking  
17 about in the page 3 call?

18 A. Yes. Though again I think it's more of the  
19 generic those were our only two -- so this was I think  
20 before -- you know, the common equity pieces didn't come  
21 till later in the crisis, so I think preferred was the  
22 tool the government could use in theory, so it was  
23 injecting preferred equity or buying off the bad assets.  
24 Those were the -- those were the two ways to address --  
25 we thought through to address a run. I don't think these

1 were -- if I can clarify, I don't think these calls  
2 really were again decision -- like they weren't the  
3 people who were going to make decisions around AIG in  
4 general. I think they were supposed to be to talk  
5 through how these options worked.

6 Q. Let me see if I understand what you're saying.

7 On September 15, 2008, it was clear that AIG was,  
8 in your words, suffering a run; correct?

9 A. They -- they were in trouble -- yeah, they were in  
10 trouble, yes, it's a -- I guess I don't know if run is  
11 the right term. I know I used it, but they were having  
12 liquidity problems.

13 Q. And just to get your understanding on the record,  
14 what is a run as you use that term?

15 A. Well, so I don't want -- so in -- in the case of  
16 AIG, what I understood was that it just that there  
17 were -- their liquidity -- they were having collateral  
18 calls -- so -- so it wasn't as much that the market had  
19 pulled away from them as the events were causing them to  
20 have to give out a lot of cash, and that was causing the  
21 liquidity problem. A typical run I guess is when a --  
22 when the market just says like this name is no longer  
23 good, and you know, they just go away from it completely,  
24 so I don't know -- I don't know if I'd say AIG had a run  
25 on it or if it was just running out of cash at that time.

1 I don't know if the distinction matters.

2 Q. Let me see -- let me see if I understand what  
3 you're saying.

4 And let me begin with what you understand was  
5 happening with AIG.

6 AIG was dependent on funding from commercial paper  
7 markets to a large extent; correct?

8 A. I don't know. I don't know.

9 Q. You don't know one way or the other.

10 A. No.

11 Q. Did you understand that AIG had a securities  
12 lending business?

13 A. I subsequently understood that. I'm not sure if I  
14 understood that this weekend.

15 Q. And did you understand that people were running  
16 away from providing liquidity to the securities lending  
17 business? ?

18 A. Again, not sure if I -- if I knew that then, like  
19 the source of the liquidity problem then.

20 Q.

21 A. For some reason collateral calls is what I recall  
22 being said, but I just -- I didn't know too much about.

23 Q. Okay. Let me see if I understand the reference to  
24 senior preferred or buying bad assets.

25 A. Okay.

1 Q. Leaving aside the question of whether a company is  
2 or is not subject to a run, was it your understanding on  
3 September 15 that the two basic tools that the government  
4 had to deal with a company that was suffering severe  
5 liquidity problems was injecting senior preferred or  
6 buying bad assets?

7 A. No. I think the -- I think would I add to those  
8 tools in general lending, discount window or 13(3)  
9 lending, but I think there was -- we -- this was a  
10 company that was different structure than typically the  
11 discount -- borrowed at the discount window so I think we  
12 were trying to understand more about what the -- what  
13 kinds of things could -- more definitively stabilize the  
14 situation than just access to lending, liquidity.

15 So I would say liquidity access is another piece  
16 of the thing, but that wouldn't be something we would  
17 have talked about with Treasury particularly, so that's  
18 possible why the -- why that's not here.

19 Q. The two options that are discussed here for  
20 dealing with AIG's financial problems are buying  
21 preferred and possibly warrants first and second buying  
22 bad assets; correct?

23 A. Again, I -- I -- I don't know if they were being  
24 discussed specifically about what to do with AIG so much  
25 as what kind of tools did the government have to do

1 anything about the company -- the situation we were  
2 facing. I don't -- I've never or haven't reviewed that  
3 case study, but I suspect if you went back to that case  
4 study, these would be the kinds of options that are  
5 generically just discussed, so yeah. I don't know.

6 Q. Is it your testimony that the two tools as you use  
7 that term, that the government had other than possibly  
8 13(3) lending in order to deal with AIG's financial  
9 problems, as you understood it on September 15, were  
10 buying preferred and buying the bad assets?

11 A. I would say in order to deal with a large failing  
12 firm's financial problems, like I said, I don't -- these  
13 were not the calls -- these calls I think were more along  
14 the lines of that case study scenario planning trying to  
15 think through the rationale for any intervention we were  
16 going to do, and so we were trying to be robust. I don't  
17 think my notes reflect that because I was only on as many  
18 calls as I was on, but it wasn't -- I think these are  
19 fairly generic ways of putting it and not so much  
20 informed by AIG situation, any details of AIG's  
21 situation.

22 Q. Is it fair to say that the reason you were having  
23 these calls was AIG?

24 A. I think that is fair to say, though we had no idea  
25 what else, you know, was still to come, so yes, AIG was

1 the impetus at that moment I think, but Lehman had just  
2 declared bankruptcy and so yeah, wasn't just AIG.

3 Q. There wasn't anything you could do about Lehman at  
4 this point, though; right?

5 A. No. I don't remember what day on the morning of  
6 the 15th.

7 Q. Yes.

8 A. Yeah. No, there wasn't.

9 Q. By September 15, AIG was the problem?

10 A. Yeah, was the elephant in the room.

11 Q. And generically, your understanding on  
12 September 15 was that the way the government had for  
13 dealing with troubled firms other than possibly 13(3)  
14 lending was to buy senior preferred or to buy bad assets?

15 MS. GERBER: Objection, Your Honor. That's been  
16 asked and answered.

17 THE COURT: I'll sustain the objection. I think  
18 we can move on.

19 BY MR. BOIES:

20 Q. Let me direct your attention to the page 3 where  
21 your notes following the line about buying bad assets?

22 A. Yes.

23 Q. Can you read the next two lines?

24 A. Yeah. 380 companies, the vast majority are  
25 capitally adequate. The rest of it? Stop Dinallo from

1 taking assets out of the subs to support the subs with  
2 the bad assets.

3 Q. Now, the 380 companies, the vast majority are  
4 capitally adequate," who said that?

5 A. I don't know who said it.

6 Q. The 380 companies are the 380 subsidiaries of AIG;  
7 is that correct?

8 A. I would assume so. If that's how many they had.  
9 I don't remember, but it's somebody providing some maybe  
10 factual context for this other discussion because most  
11 people on the call probably didn't know very much about  
12 AIG at all.

13 Q. You were aware the evening of September 15 that  
14 Mr. Dinallo and Governor Paterson had proposed taking  
15 assets out of the insurance subsidiaries in order to help  
16 AIG; correct?

17 A. I don't know that I was aware. I wrote this down,  
18 but I don't know that I processed it or was -- yeah, I  
19 just wrote it down.

20 Q. Who said stop Dinallo from taking assets out of  
21 the subs?

22 A. Again, I don't know. I think it probably was said  
23 in a -- this would be a condition -- this would have to  
24 happen if anything -- I mean, again trying to think  
25 through how either putting preferred in or buying out bad

1 assets would serve to stabilize and one discussion would  
2 be how the insurance regulator would be acting that time  
3 I think.

4 Q. This was something that somebody in the U.S.  
5 government was saying, though; correct? This was not  
6 your interpretation of what Mr. Dinallo was going to do.  
7 This was what somebody in the government was saying, to  
8 stop Dinallo from taking the assets out of the subs;  
9 correct?

10 A. I most likely given the way I'm looking at this,  
11 it's somebody saying, well, we would have to owe forethis  
12 to work we would have to stop like I don't think like  
13 it's a statement -- again, I think we were trying to  
14 understand how any process -- any intervention would  
15 work, I think so I don't think this was a direction to  
16 somebody to stop Dinallo or I think it was more a comment  
17 that somebody made and I wrote it down I guess because it  
18 sounded interesting, but I don't know -- yeah.

19 Q. Is it fair to say as you sit here now you don't  
20 remember who said it or in what context?

21 A. Yes. It's fair to say that.

22 Q. Let me go on to page 4. This is also dated  
23 September 15, 2008, and it is headed Call with  
24 Morgan Stanley.

25 Do you see that?



1 A. Yes.

2 Q. And what does the first line of these notes say?

3 A. Use ESF, which is the Exchange Stabilization Fund,  
4 to take 50 billion from AIG.

5 Q. And was that something that Morgan Stanley  
6 proposed?

7 A. I have no idea.

8 Q. Do you recall anything at all about who said this  
9 or in what context?

10 A. I'm just going to look at the rest just to see  
11 if...

12 **(Pause in the proceedings.)**

13 No.

14 Q. Let me -- let me go to page 14.

15 And I would ask you to try to look at this in  
16 context and tell me as best you can what this represents,  
17 that is, what are you taking notes in connection with.

18 A. I don't -- it's hard to say here. This looks like  
19 could be -- yeah. I don't know. I don't remember. This  
20 is on page 14 you're saying. Yeah.

21 Q. Yes.

22 A. Somebody else -- Calvin -- Calvin Mitchell was our  
23 public information guy. He was saying what does AIG like  
24 how do we explain AIG to the world and then to Jester but  
25 I don't know I have no idea if this is speaking to

1 Jester, somebody speaking to Jester. I just don't know.  
2 I don't have any other names I think.

3 Q. Where it says to Jester, can you read those two  
4 lines?

5 A. Needs to be a loan, loan comes with conditions,  
6 plan to run the company.

7 Q. And can you tell me anything at all about who said  
8 that or in what context?

9 A. I can't.

10 Q. If you go on to the next page, the fourth line  
11 down that begins, "We need," do you see that?

12 A. Yes.

13 Q. Could you read that line?

14 A. We need your full cooperation.

15 Q. Who is that being directed to?

16 A. I don't know. I don't know if this is someone  
17 running through a script or whether this is something I'm  
18 listening to somebody actually saying to somebody. So I  
19 don't know.

20 Q. Let me go to the last two lines on page 14.

21 A. Uh-huh.

22 Q. Can you read that?

23 A. Yes. We have talked to your advisors. They say  
24 they can't put together enough capital. We -- we  
25 something your bankruptcy would be systemic. Think I

1 assume that is but.

2 Q. We think your bankruptcy would be systemic?

3 A. Yeah.

4 Q. Is that the way you read that?

5 A. Yes.

6 Q. And who is saying that and to whom?

7 A. Again, I don't know. It sounds to me like this is  
8 somebody running through how they would talk to --  
9 running through a script of what they would say and,  
10 looking at the context, what they would say to someone at  
11 AIG. But I have no idea if it's someone actually talking  
12 to someone at AIG.

13 Q. Let me ask you to turn next to Plaintiffs' Trial  
14 Exhibit 60, which I would offer.

15 MS. GERBER: No objection.

16 THE COURT: Plaintiffs' Trial Exhibit 60 is  
17 admitted.

18 **(Plaintiff's Exhibit Number 60 was admitted into**  
19 **evidence.)**

20 BY MR. BOIES:

21 Q. This is a series of e-mails between you and Adam  
22 Ashcraft on September 15, 2008.

23 Do you see that?

24 A. Yes.

25 Q. And who is Mr. Adam Ashcraft?

1           A. At that time I think he was an economist in our  
2 research department.

3           Q. And one of the things he writes you is very  
4 solvent lots of capital but no liquidity.

5           Do you see that?

6           A. Yes.

7           Q. And he's referring there to AIG; correct?

8           A. I don't -- does it say? I don't -- I don't know.  
9 I -- I don't know.

10          Q. Was there any other --

11          A. Yeah. I think it's probably AIG.

12          Q. Okay.

13          A. Yeah.

14          Q. Let me ask you to look next at Plaintiffs' Trial  
15 Exhibit 1760, which I would offer.

16           MS. GERBER: No objection.

17           THE COURT: Plaintiffs' Trial Exhibit 1760 is  
18 admitted.

19                   **(Plaintiff's Exhibit Number 1760 was admitted into**  
20 **evidence.)**

21           BY MR. BOIES:

22          Q. Just to be clear, we have now moved from September  
23 to October of 2008.

24          A. Uh-huh.

25          Q. Do you see that?

1 A. Yes.

2 Q. And I'm now directing your attention to an e-mail  
3 that Joseph Sommer wrote to you and a number of other  
4 people on October 7, 2008 at 5:24 p.m.

5 I take it you received this e-mail at or about the  
6 time it was sent?

7 A. Yes. Presumably.

8 Q. And am I correct that at this point in time, which  
9 was after the credit agreement had been signed, there was  
10 another discussion about whether Chapter 11 was or was  
11 not a sensible path for AIG to take?

12 A. I don't really recall this discussion. It appears  
13 that Joe was working on something related to that. I  
14 don't know how tied in that was to what was really --  
15 what was actually going on. And at this time I would  
16 have been more -- I was coming up on Columbus Day weekend  
17 and capital injections, and so I was a little bit -- my  
18 focus had shifted a bit.

19 Q. Now, in Plaintiffs' Trial Exhibit 1760 on the  
20 first page, Mr. Sommer wrote, "I think there is a good  
21 argument to be made that Chapter 11 is a least cost  
22 resolution for AIG."

23 Do you see that?

24 A. Yes.

25 Q. Do you recall Mr. Sommer telling you that at the

1 time?

2 A. No.

3 Q. Do you recall anyone telling you that at the time?

4 A. No.

5 Q. Do you recall any discussion at all with anyone  
6 about whether or not Chapter 11 was a least-cost  
7 resolution for AIG?

8 A. I'm not even sure what "resolution" means because  
9 Chapter 11 is a bankruptcy; right, so I think of  
10 resolution as resolution regime, something or that's  
11 outside of bankruptcy for it to deal with a failing firm  
12 so I'm not really sure what -- I'm not really sure what  
13 Joe means here and I haven't looked at this carefully.

14 Q. The last sentence of that paragraph says, "In  
15 FDIC-speak, resolutions that are least-cost for the  
16 relevant firm might still generate enough systemic risk  
17 so they are not least-cost for the system."

18 Do you see that?

19 A. Yes.

20 Q. Were you aware of Mr. Sommer expressing that view  
21 in October of 2008?

22 A. No. And I don't understand what it would mean  
23 because I don't -- I don't think the least-cost standard  
24 applies to the firm. It's to the system. I'm pretty  
25 sure it's cost to the fund, the FDIC fund, so I'm justify

1 not -- I'm not sure what he's talking about.

2 Q. Well, isn't he saying that Chapter 11 might be the  
3 best solution for AIG, but it might not be the best  
4 solution if you're concerned about systemic risk? Isn't  
5 that what he's saying?

6 A. I guess. I just don't know what least cost for  
7 the relevant firm means, but yeah. Yeah.

8 Q. Let me direct your attention to what is attached  
9 here, which is headed preliminary analysis and the  
10 consequences of an AIG bankruptcy filing?

11 A. Okay.

12 Q. Do you see that?

13 A. Yes.

14 Q. And is this something that you were aware of in  
15 October of 2008?

16 A. I don't -- I don't recall being aware of it.

17 Q. Let me go down to the e-mail from Amy Flynn to  
18 Joseph Sommer.

19 A. Okay.

20 Q. On the subject of Chapter 11 starter deck. This  
21 is October 7, 2008 at 3:58 p.m.

22 Do you see that?

23 A. Yes.

24 Q. And Ms. Flynn transfers or transmits the  
25 attachment to Mr. Sommer prior to the time that he passes

1 it on to you; correct?

2 A. He sends it -- sorry. So I can't tell where the  
3 attachment does he sends -- he just asks owe she asks Joe  
4 to send her -- oh, I don't -- is this the bankruptcy  
5 alternative attachment that's on those next pages or is  
6 it something else? Because this looks like the slide  
7 deck on the next few pages. And Joe Sommer -- sorry.  
8 I'm just trying to see.

9 I can't tell if Joe attached -- chapter -- yeah,  
10 Joe's I guess is Chapter 11 starter deck.

11 What was the question? Sorry.

12 Q. Okay. At 3:58 p.m. --

13 A. Yes.

14 Q. -- Amy writes Joseph Sommer?

15 A. Uh-huh.

16 Q. -- Jim Hennessy suggested that I contact you. We  
17 are working on a slide deck to describe the impact of an  
18 AIG bankruptcy, and we wanted to see if you had any  
19 thoughts on the draft we've got so far (see attached)."

20 A. Yeah.

21 Q. Do you see that?

22 A. Yeah. Yeah.

23 Q. So Amy Flynn sent the attached draft to Mr. Sommer  
24 and Mr. Sommer made some comments and sent it on to you;  
25 correct?



1           A. I guess so. Yes. Okay. As you'll see from the  
2 comments in green, okay, yes.

3           Q. And when Amy Flynn sent it on to Joseph Sommer,  
4 she said, in the last sentence of the first paragraph,  
5 "If you have any ideas or suggestions or edits, please  
6 let us know... or feel free to forward them on to Meg  
7 McConnell and John Kambu, who are also provided some  
8 feedback on the draft presentation."

9           Do you see that?

10          A. Yes.

11          Q. So that indicates that even though you don't  
12 remember it now, you did provide some comments or  
13 feedback on this presentation at the time; correct?

14          A. Or I was going to. I don't know if it -- I can't  
15 tell from how she wrote that, but yes, it's possible that  
16 I commented on it.

17          Q. But it would be your testimony that as of today  
18 you have no recollection of making any comments or if you  
19 did what those comments were; correct?

20          A. Yes. That's right.

21          Q. And indeed, as you sit here now, you don't have  
22 any recollection of any of the communications that are  
23 referred to here in Plaintiffs' Trial Exhibit 1760; is  
24 that fair?

25          A. I don't.

1 Q. Let me ask you to turn to Plaintiffs' Trial  
2 Exhibit 105, which I would offer.

3 MS. GERBER: No objection.

4 THE COURT: Plaintiffs' Trial Exhibit 105 is  
5 admitted.

6 **(Plaintiff's Exhibit Number 105 was admitted into**  
7 **evidence.)**

8 BY MR. BOIES:

9 Q. What are these notes?

10 A. I don't know whether -- so TFG plus -- so whether  
11 it's describing that Tim Geithner and Hank Paulson called  
12 Bob Willumstad and asked him to resign -- I don't -- I  
13 don't remember whether I was -- somebody was summarizing  
14 the fact that they had done that and I was writing down  
15 that summary or whether -- I don't -- given that it's in  
16 past tense, it's not the call itself, so it's not  
17 whenever they called, it's not that call. It's somebody  
18 describing that call.

19 Q. You're talking about the first five lines on page  
20 1 of Exhibit 105?

21 A. Yes. Yes.

22 Q. To the left of those five lines there is a 4:45?

23 A. Yes.

24 Q. Is that 4:45 in the afternoon?

25 A. I don't know. Probably.

1 Q. Is that 4:45 on September 16?

2 A. I don't know. I was looking to see if --

3 Q. Is 4:45, if you know, the time that Mr. Geithner,  
4 Mr. Paulson and Mr. Jester called Mr. Willumstad or is it  
5 the time that somebody told you about that call?

6 A. That's -- that's what I don't -- I don't recall.  
7 I think the call to Mr. Willumstad should be available  
8 from Geithner's call logs if so if it's that, that would  
9 probably tell me. I just can't tell whether -- it  
10 doesn't seem to me that this is the call. It seems to me  
11 that this is me writing a note on the fact that the call  
12 had happened, but I'm not sure.

13 Q. Could you read those five lines.

14 A. Yeah. TFG plus H P, with Dan Jester called  
15 Bob Willumstad and asked him to resign as CEO. The  
16 rationale was that it would be impossible to explain this  
17 action without this.

18 Q. Who is Dan Jester?

19 A. He was an advisor of Hank Paulson's at Treasury.

20 Q. And I take it from what you have said that you  
21 don't recall who told you this or in what context or  
22 whether it was in person or by telephone or who else was  
23 present?

24 A. Right. Yeah, I don't -- I don't know -- it  
25 doesn't seem to me to be the call itself. If they made a

1 call, it doesn't seem to be the -- that I was listening  
2 to the call and writing it down just by the way I'm  
3 writing.

4 Q. Let me ask you to look at page 2 of page 105 -- I  
5 mean of Exhibit 105.

6 A. Okay.

7 Q. Could you read the first two lines or maybe just  
8 the first line if it's only --

9 A. Yeah.

10 Q. -- one line.

11 A. "Strange that we have such a high rate?"

12 Q. Do you know who said that?

13 A. Possibly me to myself. I don't know.

14 Q. Then page 3 of Plaintiffs' Trial Exhibit 105, at  
15 the top, can you read those two lines?

16 A. Ed Liddy, CEO designate is coming to the Ritz.

17 Q. And at the time that you're taking these notes,  
18 did you know who Ed Liddy was?

19 A. I did not. I mean, I don't know whether I knew  
20 for a couple hours or something, but I didn't know, yeah.

21 Q. And were the meetings going on at the Ritz?

22 A. I have no idea, no recollection of that. I don't  
23 know if the Ritz is here, but.

24 THE COURT: Mr. Boies, shall we take an afternoon  
25 break?

1 MR. BOIES: Yes, Your Honor.

2 THE COURT: We'll reconvene at 3:30.

3 **(Court in recess.)**

4 MS. ACEVEDO: Your Honor, Mr. Boies has been kind  
5 enough to allow me to move into evidence the revised  
6 DX 473-A, the unredacted version of the chart I discussed  
7 earlier with Your Honor.

8 THE COURT: Sure, that's fine.

9 MR. BOIES: Without objection, Your Honor.

10 MS ACEVEDO: Thank you. May I approach?

11 THE COURT: Yes.

12 So without objection, Defendant's Exhibit 473-A is  
13 admitted.

14 **(Defendant's Exhibit Number 473-A was admitted**  
15 **into evidence.)**

16 MS. ACEVEDO: Thank you, Your Honor.

17 BY MR. BOIES:

18 Q. Could I ask you to look at page 4 of Plaintiffs'  
19 Trial Exhibit 105, and in particular the three lines  
20 opposite the number 11.

21 A. Yes.

22 Q. Do you see that?

23 A. Yes.

24 Q. Could you read your notes into the record.

25 A. Will government be controlling not nationalized

1 shareholders will continue to have control shares.

2 Q. And do you know what caused you to write that  
3 note?

4 A. Can I just look and see what this other stuff  
5 is **(indicating)**?

6 Q. Yes. By all means.

7 A. I don't know exactly. It looks like somebody is  
8 running through kind of the kinds of questions that could  
9 come up, the kind of questions that we need to work out  
10 so it looks like I'm writing something that someone might  
11 ask and what the answer might be.

12 Q. And in what connection were you doing this?

13 A. These definitely aren't mine -- like these  
14 questions aren't being borne in my brain, so I think  
15 somebody -- I'm just listening to somebody go through  
16 these -- through these questions. I don't know -- I  
17 don't know who's in the room when this is happening, but  
18 somebody is talking through the types of Q&A I think kind  
19 of the Q&A.

20 Q. Is it fair to say these would be notes that you  
21 would have taken of somebody at the Federal Reserve  
22 talking through what the responses would be to certain  
23 questions?

24 A. I can't say for sure, but I think that's a  
25 reasonable -- yeah.

1 Q. Let me ask you to look at the next page opposite  
2 the number 21.

3 A. Uh-huh.

4 Q. And can you read those notes.

5 A. Lot of talk about cons. Chairman Bernanke plus  
6 Paulson referred to this as a conservatorship oh, so a  
7 lot of talk about conservatorship. Chairman Paulson --  
8 Chairman Bernanke and Paulson referred to this as  
9 conservatorship I don't -- yeah.

10 Q. And do you know what caused you to write that  
11 note?

12 A. No. I think the same -- it looks like these are  
13 all questions that we -- that either have to be answered  
14 or could be asked and -- yeah. So I don't know, no, I  
15 don't know.

16 Q. Okay. Let me turn to Defendant's Exhibit 411.

17 A. Okay.

18 MR. BOIES: Which I would offer.

19 MS. GERBER: No objection.

20 THE COURT: Defendant's Exhibit 411 is admitted.

21 **(Defendant's Exhibit Number 411 was admitted into**  
22 **evidence.)**

23 BY MR. BOIES:

24 Q. And is this an e-mail that you received on or  
25 about September 16, 2008 at 7:08 p.m.?

1 A. Yes.

2 Q. And it states there, in the e-mail from  
3 Ms. McLaughlin, with this perfected, we are  
4 collateralized to my and Sandy and Andrew's satisfaction.

5 Do you see that?

6 A. Yes.

7 Q. Who did you understand Sandy and Andrew to be?

8 A. I -- I don't recall this e-mail, but this would be  
9 Sandy Krieger and probably Andrew Danzig and I think they  
10 both worked on the discount window in different  
11 capacities at the time or maybe Sandy was doing credit  
12 risk management. I'm not sure.

13 Q. Did you ever have any discussions with  
14 Ms. McLaughlin concerning -- I'm sorry -- with  
15 Ms. McConnell --

16 A. I have a lot of discussions with Ms. McConnell.  
17 That's -- some of my best discussions are with  
18 Ms. McConnell.

19 THE COURT: We shouldn't have had that holiday.

20 MR. BOIES: I know it. Exactly. I apologize.

21 BY MR. BOIES:

22 Q. Did you ever have any discussions with  
23 Ms. McLaughlin concerning the extent to which the AIG  
24 credit facility was collateralized?

25 A. Not that I recall.



1 Q. Did you ever have any discussions with anyone  
2 concerning the extent to which the AIG credit facility  
3 was collateralized?

4 A. Not that I recall.

5 Q. Let me ask you to go back for just a moment to  
6 Plaintiffs' Trial Exhibit 105 page 3. And I want to ask  
7 you to read the two lines of your notes that follow the  
8 number 2.

9 A. Okay.

10 Any plans to dispose of the stake? No current  
11 plans to sell the warrants."

12 Q. And did you understand at the time you were taking  
13 these notes that the issue as to whether there would be  
14 preferred stock or warrants or both had now been resolved  
15 in favor of having warrants?

16 A. I don't -- I don't remember whether I understood  
17 that or not.

18 Q. Did there ever come a time when you understood  
19 that?

20 A. I -- I don't know. I don't remember -- I don't  
21 remember what specifically was discussed around preferred  
22 stock except for those brainstorming case scenario  
23 things, the calls.

24 Q. And that was those brainstorming sessions on  
25 September 15; is that correct?

1 A. Yes. That we were discussing, yeah.

2 Q. And would it be fair to say that you don't  
3 remember who said this or who was responsible for  
4 concluding that there were no current plans to sell the  
5 warrants?

6 A. Yes. I don't know who was asking or answering the  
7 questions.

8 Q. Do you know whether the government's authority to  
9 acquire equity in AIG was ever discussed?

10 A. I don't recall specifically that it was discussed.

11 Q. Was it discussed generally I guess I should ask?

12 A. So sorry did you mean the authority, the issue of  
13 whether there was the authority for the government to do  
14 it? I don't -- I don't know. I now know that question  
15 is -- it's hard to put myself then and know, but I don't  
16 remember specifically.

17 Q. Okay. Let me ask you to look at Plaintiffs' Trial  
18 Exhibit 318, which is in evidence already.

19 A. Yes.

20 Q. This is an e-mail from you to Mr. Geithner and  
21 Mr. Silva on October 22, 2008 at 11:05 p.m.; correct?

22 A. Yes.

23 Q. Let me ask you to look down about the middle of  
24 the page. There's a paragraph 2 and then the next  
25 paragraph has a series of points with lines that start

1 them.

2 Do you see that?

3 A. Yes.

4 Q. And you write here, neither Treasury nor us can  
5 put capital in.

6 Do you see that?

7 A. Yes.

8 Q. And the "us" was the Federal Reserve; is that  
9 correct?

10 A. Yes.

11 Q. And what was your understanding as to why the  
12 Federal Reserve could not put capital in?

13 A. I just don't -- I guess I -- I don't know exactly  
14 what my understanding was then, but it just wasn't  
15 something that -- I don't know. See, yeah, I don't know.  
16 I explained the guarantees and I don't explain that so  
17 maybe I didn't know then.

18 Q. All right. Let me ask you to look at the last  
19 sentence of the next to last paragraph. This is the  
20 paragraph that begins, "Overall what seemed to be  
21 missing?"

22 A. Yes.

23 Q. In the way the board staff talked with our team  
24 about these issues was an appreciation of the fact  
25 without making some combination of all or at least most

1 of these things happen within a very short period of time  
2 the firm would be downgraded and would be forced to do  
3 way more on all these fronts. Do you see that?

4 A. Yes.

5 Q. And you can read whatever else you need to read  
6 for context, but the portion I want to focus on is the  
7 last sentence, where you say, I hope they see the  
8 potential for that scenario to be just as 'provocative'  
9 to Congress as one in which we take the rate down from  
10 electric crazily high one that was forced on us, (meaning  
11 Federal Reserve Bank of New York) by people that have  
12 since punted on all the hard things that came about as a  
13 result of the decision to lend that all of us knowingly  
14 made together that weekend."

15 Do you see that?

16 A. Yes.

17 Q. First, when you say I hope they see the  
18 potential," you're talking about the Federal Reserve  
19 Board of Governors staff; is that correct?

20 A. It looks like I was. Yes.

21 Q. And when you talk about the potential for that  
22 scenario to be just as provocative to Congress, you're  
23 talking about the scenario where there is downgrades and  
24 possibly defaults; correct?

25 A. Yes.

1 Q. And you're saying you believe that will be as  
2 provocative to Congress as a scenario in which you take  
3 the rate charged AIG down; correct?

4 A. Yes. That's -- yes.

5 Q. Now, you say that the AIG rate, which you describe  
6 as this crazily high one --

7 A. Yes.

8 Q. -- was forced on the FRBNY.

9 Do you see that?

10 A. Yes.

11 Q. And what did you mean by that?

12 A. I meant that there was a general sense among some  
13 staff in New York that the rate was -- was just too high,  
14 was high, so I think I'm just a little frustrated in this  
15 last paragraph and -- yeah. I don't know if it's  
16 accurate depiction of the situation.

17 Q. Now, the crazily high rate is reference to the  
18 rate on the AIG loan; correct?

19 A. Yes.

20 Q. Let me ask you to look at Plaintiffs' Trial  
21 Exhibit 665.

22 A. Okay.

23 Q. And this is a transcription of a series of  
24 comments by you and Mr. Geithner and somebody who is  
25 talking to the two of you.

1 Do you see that?

2 A. Yes.

3 Q. Your Honor, I would offer Plaintiffs' Trial  
4 Exhibit 665.

5 MS. GERBER: We object, Your Honor. This is not  
6 sworn testimony and it's hearsay. It includes -- it  
7 includes things from a man with no other indication of  
8 who's talking as well as other participants who are not  
9 the witness.

10 MR. BOIES: Your Honor, I would limit my offer as  
11 I have before in some cases to just the portions that  
12 reflect what is attributed to the witness and to  
13 Mr. Geithner and I would offer the other statements by  
14 the unidentified man who I think is an identified  
15 interviewer but that person not for the truth of the the  
16 matter asserted but simply for context.

17 THE COURT: Is that acceptable?

18 MS. GERBER: Yes, Your Honor.

19 THE COURT: Remind me of your name again.

20 MS. GERBER: Renee Gerber.

21 THE COURT: Thank you very much.

22 All right. Plaintiffs' Trial Exhibit 665 is  
23 admitted with the noted restrictions.

24 **(Plaintiff's Exhibit Number 665 was admitted into**  
25 **evidence.)**

1 BY MR. BOIES:

2 Q. What did you understand the purpose of this  
3 interview or series of interviews to be?

4 A. These -- I believe these are from tape recordings  
5 of meetings we had around -- that I didn't know were  
6 being taped around in preparation for Tim Geithner's  
7 book.

8 Q. And when did they take place?

9 A. I don't -- I don't remember when we would have  
10 done that. I don't. I don't recall.

11 Q. Now, one of the -- one of the persons that you  
12 talk about here is Mr. Jester; is that correct?

13 A. There's -- yeah. Yes.

14 Q. And you talk about an understanding that  
15 Mr. Jester owned a considerable amount of stock. Do you  
16 recall that?

17 A. Can you point me just to the --

18 Q. Sure. Look at page 154, lines 15 and 16.

19 A. Yes. I recall saying this.

20 Q. Now, when you referred to Mr. Jester owning a  
21 considerable amount of AIG stock or something, was what  
22 Mr. Jester owned was a considerable amount of  
23 Goldman Sachs stock?

24 A. Are you asking me?

25 Q. Yes.

1 A. I don't recall. I don't know.

2 Q. At the time that Mr. Jester was involved in this  
3 representing Treasury, do you know whether he held stock  
4 in any of the companies that might be affected by an AIG  
5 bankruptcy?

6 A. I don't know.

7 Q. Now, let me go back to Plaintiffs' Exhibit 68 and  
8 in particular to page 14.

9 And do you recall I directed your attention at the  
10 top of the page to a note that says "to Jester needs to  
11 be a loan loan comes with conditions plan to run the  
12 company? Do you recall that?"

13 A. Yes.

14 Q. Independent of any particular conversation, do you  
15 recall general conversations or discussions with  
16 Mr. Jester about plans to run AIG?

17 A. I don't.

18 Q. What was Mr. Jester's role as you understood it?

19 A. He was an advisor to Secretary Paulson.

20 Q. Now, was he -- and he was on the call where  
21 Secretary Paulson and Mr. Geithner told Mr. Willumstad  
22 that he would have to resign; correct?

23 A. That -- those notes that I -- that we looked at  
24 suggest that somebody told me that he was. Yes.

25 Q. Let me ask you to look at Defendant's Exhibit 639.



1 A. Okay.

2 Q. Which I would offer.

3 MS. GERBER: No objection.

4 THE COURT: Defendant's Exhibit 639 is admitted.

5 **(Defendant's Exhibit Number 639 was admitted into**  
6 **evidence.)**

7 BY MR. BOIES:

8 Q. Do you see that the first of these e-mails is an  
9 e-mail from Sarah Dahlgren to you and a number of other  
10 people on the subject of update on rating agencies, with  
11 the e-mail dated November 1, 2008 at 11:21 in the  
12 morning?

13 A. Uh-huh.

14 Q. And one of the things that Ms. Dahlgren identifies  
15 is certain concerns that Moody's, one of the rating  
16 agencies, has; correct?

17 A. It looks to be, yes.

18 Q. Can you look at the first numbered concern, which  
19 is on the second page of the exhibit?

20 A. Uh-huh.

21 Q. It says quote the RMBS and CDO portfolio solutions  
22 (the FRBNY SPVs) lock in losses, forcing the company to  
23 absorb a substantially greater loss relative to what  
24 Moody's expected the ultimate losses on this portfolio to  
25 be. Over the weekend, we will be reviewing our options

1 here, including the upside sharing arrangements in the  
2 structure."

3 Do you see that?

4 A. Yes.

5 Q. The reference to the FRBNY SPVs is a reference to  
6 Maiden Lane II and Maiden Lane III; correct?

7 A. I assume so. Yes.

8 Q. And you understood in early November of 2008 that  
9 Moody's was expressing the concern that ML II and ML III  
10 locked in losses and forced AIG to absorb a substantially  
11 greater loss relative to what Moody's expected the  
12 ultimate losses on the portfolios to be; correct?

13 A. I don't know that I understood that, but that's  
14 what Sarah -- I think it looks like what Sarah is saying,  
15 yes.

16 Q. And did you have any reason to disagree with that  
17 in November of 2008?

18 A. No.

19 Q. Let me ask you to look at Plaintiffs' Trial  
20 Exhibit 297, which I would offer.

21 MS. GERBER: No objection.

22 THE COURT: Plaintiffs' Trial Exhibit 297 is  
23 admitted.

24 **(Plaintiff's Exhibit Number 297 was admitted into**  
25 **evidence.)**

1 BY MR. BOIES:

2 Q. And this is a series of e-mails and the main  
3 e-mail is from Ms. Dahlgren to Mr. Geithner and a variety  
4 of other people, including yourself, on the subject of  
5 AIG call tonight.

6 Do you see that?

7 A. Yes.

8 Q. And this is on October 15, 2008 at 12:56 a.m.;  
9 correct?

10 A. Yes.

11 Q. And paragraph numbered 1 or just -- well, the  
12 first paragraph, it's the paragraph before the paragraphs  
13 with the numbers, the first paragraph?

14 A. Uh-huh.

15 Q. Says to bring you up to speed following our  
16 discussions earlier this evening we spent another hour  
17 with board staff this evening on the way forward.

18 And who are the board staff that is being referred  
19 to there?

20 A. I don't know. I'd have to look. Possibly the  
21 board staff referenced in the earlier forwarded e-mail,  
22 but that's two days -- I don't know. I don't know.

23 Q. This would be some staff from the  
24 Board of Governors --

25 A. Yes.

1 Q. -- of the Federal Reserve --

2 A. Yes.

3 Q. -- correct?

4 A. Yes. Yes.

5 Q. Let me ask you to look at Plaintiffs' Trial  
6 Exhibit 496, which I would offer.

7 MS. GERBER: No objection.

8 THE COURT: Plaintiffs' Trial Exhibit 496 is  
9 admitted.

10 **(Plaintiff's Exhibit Number 496 was admitted into**  
11 **evidence.)**

12 BY MR. BOIES:

13 Q. The e-mail at the bottom of the page, April 3,  
14 2009 at 6:39 p.m., is an e-mail to you and a number of  
15 other people from Mr. David Gross attaching what is  
16 described as the first draft of the AIG restart summary.  
17 Do you see that?

18 A. Yes.

19 Q. And then there is an attachment that is labeled  
20 draft of April 3, 2009 AIG Restart: Key Steps.

21 A. Yes.

22 Q. And is this a document that you were familiar with  
23 in April of 2009?

24 A. I received it. I don't recall how much time I  
25 spent looking at it.

1 Q. What was the AIG restart project?

2 A. I don't -- I don't recall. At this time I was  
3 working on the S cap, the stress test, short attention  
4 span, so I had -- I wasn't -- I probably received these  
5 because I was in this chief of staff role but not -- not  
6 because I was too intimately involved in these  
7 discussions.

8 Q. Let me ask you to look at Plaintiffs' Trial  
9 Exhibit 497, which is an e-mail --

10 A. Uh-huh.

11 Q. -- from you two days later at 3:08 p.m. on  
12 April 5.

13 Do you see that?

14 A. Yes.

15 Q. And does this relate to the proposed AIG restart  
16 project?

17 A. It looks to, yes, from the subject line.

18 Q. And if you go to the second page, the first full  
19 sentence, where you say in this case I don't think he's  
20 accurately accounting for the fact that we're still deep  
21 in the midst of a systemic financial crisis of an  
22 unprecedented magnitude with the real economy still  
23 contracting sharply and the industry in which at least  
24 many of the potential buyers of the AIG businesses reside  
25 (the insurance industry) still deteriorating both

1 absolutely and relative be to expectations.

2 Do you see that?

3 A. Yes.

4 Q. And --

5 MS. GERBER: Your Honor, if counsel is going to be  
6 reading from the document, we'd ask that he move to move  
7 the exhibit into evidence.

8 MR. BOIES: I thought I did, Your Honor, and I  
9 apologize. I would offer Plaintiffs' Trial Exhibit 47.

10 MS. GERBER: No objection.

11 THE COURT: All right. Plaintiffs' Trial  
12 Exhibit 497 is admitted.

13 **(Plaintiff's Exhibit Number 487 was admitted into**  
14 **evidence.)**

15 BY MR. BOIES:

16 Q. Without reading it again, do you have that in  
17 mind?

18 A. Yes. I just -- I can read it. I don't remember  
19 any of this.

20 Q. Do you remember what you had in mind when you  
21 wrote it at all?

22 A. I really don't.

23 Q. Okay. Let me ask you to look at Defendant's  
24 Exhibit 604. And this is an e-mail chain that is  
25 forwarded on to you with a variety -- and a variety of

1 other people. And it's blind copies on October 15, 2008.

2 Do you recall receiving this?

3 A. I don't. I was blind-copied on I think everything  
4 that Geithner sent, but beyond a certain point, he'd put  
5 us all on the bcc line just for -- so we could keep track  
6 of what he was sending.

7 Q. Do you have any recollection at all about the  
8 subject matter of this e-mail string?

9 A. I don't.

10 Q. Let me ask you to look at Plaintiffs' Trial  
11 Exhibit 1827, which I would offer.

12 MS. GERBER: No objection.

13 THE COURT: Plaintiffs' Trial Exhibit 1827 is  
14 admitted.

15 **(Plaintiff's Exhibit Number 1827 was admitted into**  
16 **evidence.)**

17 BY MR. BOIES:

18 Q. This is a cover e-mail from Rafal Nowak on  
19 November 9, 2008 at 3:22 a.m. to you and a number of  
20 other people, with a draft of a senior preferred stock  
21 and warrant relating to TARP.

22 Do you see that?

23 A. Yes.

24 Q. And did you receive this at or about the time it  
25 was sent to you?

1 A. I -- I would assume so.

2 Q. And do you know what the purpose of this revised  
3 draft term sheet was?

4 A. No, I don't.

5 Q. Are you familiar with the so-called walker  
6 lawsuit?

7 A. Walker?

8 Q. Yes.

9 A. No.

10 Q. Are you familiar with a lawsuit --

11 A. No.

12 Q. -- in Delaware where AIG was sued by shareholders  
13 who wanted to assure themselves there would be a  
14 shareholder vote on the preferred stock issued in  
15 connection with the AIG credit facility?

16 A. No.

17 Q. Let me ask you to look next at Plaintiffs' Trial  
18 Exhibit 337, which I would offer.

19 MS. GERBER: No objection.

20 THE COURT: Plaintiffs' Trial Exhibit 337 is  
21 admitted.

22 **(Plaintiff's Exhibit Number 337 was admitted into**  
23 **evidence.)**

24 BY MR. BOIES:

25 Q. This is an e-mail to you and others on the subject



1 of draft valuation report from AIG. And it is dated  
2 November 2, 2008 at 17:39.

3 Do you see that?

4 A. I don't see -- am I on this? I guess it's --  
5 yeah, I see. Yes.

6 Q. And do you recall that there was a valuation of  
7 the series A preferred stock that AIG provided to the  
8 government in connection with the credit facility?

9 A. I don't recall that.

10 Q. Let me ask you to look at the third page, where  
11 KPMG writes to AIG at the bottom we estimated the fair  
12 value rounded of the preferred stock as of the valuation  
13 date to be \$23 billion.

14 Do you see that?

15 A. Yes.

16 Q. Is that consistent with your understanding of the  
17 fair value of the preferred stock that the government  
18 obtained in connection with the AIG September 22 credit  
19 facility?

20 A. I have no understanding of what the value of that  
21 stock was.

22 Q. Did you ever participate in any discussions  
23 concerning what the value of that stock was?

24 A. I don't -- I don't know for sure, but I don't  
25 have -- I don't recall having any knowledge of it or --

1     yeah, particularly knowing about it. I may have been in  
2     discussions.

3             Q. Do you recall at least that there were attempts  
4     made contemporaneously to value the stock that was  
5     received by the government in connection with the  
6     September 22 AIG credit facility?

7             A. I don't.

8             Q. Let me ask you to turn next to Plaintiffs' Trial  
9     Exhibit 142, which I would offer.

10            MS. GERBER: Objection, Your Honor. Ms. McConnell  
11     is not on this e-mail chain, so lack of foundation.

12            MR. BOIES: That is true, Your Honor. However,  
13     the beginning of this is an e-mail that we've covered I  
14     believe with Ms. McConnell earlier. This is the  
15     Scott Sherman e-mail. And I think that the continuation  
16     of this e-mail chain, all of which is within the  
17     Federal Reserve, is certainly admissible.

18            THE COURT: Well, it's a Federal Reserve Bank  
19     document, and I'm going to overrule the objection and see  
20     what she knows about it.

21            So Plaintiffs' Trial Exhibit 142 is admitted.

22            **(Plaintiff's Exhibit Number 142 was admitted into**  
23     **evidence.)**

24            BY MR. BOIES:

25            Q. Now, just to start, in context, if you look on

1 page 3, you will see the Scott Sherman e-mail that we  
2 talked about earlier.

3 Do you see that?

4 A. Yes.

5 Q. And that was an e-mail that you received; correct?

6 A. I don't know. I don't recall discussing it  
7 earlier, but I may very well have seen it.

8 Q. Let me try to find that because it's possible that  
9 I didn't directly cover that with you, so let me put that  
10 in front of you again.

11 Would you look at Plaintiffs' Trial Exhibit 145.

12 A. Okay.

13 Q. And I apologize because I think that I covered  
14 this this morning, but it was with Ms. McLaughlin. It  
15 was not with you.

16 Let me just ask you, were you familiar with the  
17 views that are expressed by Mr. Scott Sherman that is the  
18 third page of Plaintiffs' Trial Exhibit 142?

19 A. I am familiar with the sentiment that Scott is  
20 expressing in this e-mail, the particular theory he has  
21 about allocating capital and I don't know I'd have to  
22 think more about that. I'm not sure I know or wasn't --  
23 the sort of the case he makes I'm not familiar with. The  
24 idea that the pricing was high I am familiar with.

25 Q. The e-mails that follow on on page 1 of

1 Plaintiffs' Trial Exhibit 142 are on the subject of AIG  
2 pricing: More harm than good.

3 Do you see that?

4 A. Yes, I do.

5 Q. Were you familiar with people at the  
6 Federal Reserve who expressed the view that the pricing  
7 of the AIG interest rate by the Fed did more harm than  
8 good?

9 A. I -- this particular framing of more harm than  
10 good I don't -- I wasn't familiar with. But it's  
11 somebody just expressing their -- Scott is a -- monitors  
12 markets again, so Scott is kind of replaying what he's  
13 hearing, as is John micro gown. They're all market  
14 monitoring. Til worked in our bank supervision group so  
15 I don't -- I mean, I think this was just a -- a  
16 discussion that that did prevail at the time internally  
17 around the -- whether the rate was too high.

18 Q. Could I inquire, Your Honor, did I offer  
19 Plaintiffs' Trial Exhibit 297 earlier?

20 THE COURT: Yes.

21 MR. BOIES: Thank you.

22 BY MR. BOIES:

23 Q. At the time that the Bear Stearns emergency credit  
24 facility was put in place, there was a lot of criticism  
25 of the Federal Reserve Board; correct?

1           A. Yes. I think there was some -- there was  
2 criticism.

3           Q. And indeed, there was a lot of criticism; correct?

4           A. I guess.

5           MS. GERBER: Objection, Your Honor. Could counsel  
6 be a little bit more specific about criticism by whom?  
7 And also as to time?

8           BY MR. BOIES:

9           Q. Let me ask you to look at page 103 of your  
10 deposition.

11          A. Oh.

12          Q. And continuing on to page 104. You can read  
13 whatever portions you think are appropriate for context,  
14 but what I'm interested in is at lines 3 through 7, where  
15 you say I'm not talking about any particular company.  
16 I'm talking about in the wake of what happened with  
17 Bear Stearns, there was a lot of criticism.

18                 Do you see that?

19          A. Yes.

20          Q. And when you were talking about a lot of criticism  
21 there, what were you talking about?

22          A. I think the sort of general -- there was a lot of  
23 people expressed the view that it was a bailout and that  
24 that's bad.

25          Q. And?

1 A. There were hearings, et cetera.

2 Q. Are you finished?

3 A. I was just saying there were hearings and,  
4 et cetera, so just the general -- there was a -- yeah.

5 Q. Is it fair to say that one of the concerns that  
6 the Federal Reserve had in connection with providing  
7 emergency credit to AIG was the fact that that would  
8 subject the Federal Reserve to renewed criticism?

9 A. I don't know -- if you're asking me did I think it  
10 would, I -- yes, I think it would have -- I would have  
11 thought it would have at that time, but I -- I don't know  
12 how to speak -- I don't know who the -- you know, there's  
13 a lot of different people in the Federal Reserve, so I  
14 just don't know how to generalize that.

15 Q. Were you at least aware that there were people  
16 other than you, even though you may not know of them all,  
17 who shared your concern that in light of the Bear Stearns  
18 experience, providing credit to AIG would subject the  
19 Federal Reserve to criticism?

20 A. So it's difficult to say. I mean, we've been  
21 through now a lot of in other words TARP and lots of  
22 other companies had interventions, so I -- when I was  
23 writing in this deposition, I was doing the collective --  
24 certainly there's been a lot of, you know, criticism of  
25 the Fed in the wake of the financial crisis and the

1 bailouts, but I don't know that at that time I was as  
2 focused on that criticism as I am -- as I was  
3 collectively in my -- what I'm collectively reflecting  
4 here. I just don't know.

5 Q. Let me ask you to look at Plaintiffs' Trial  
6 Exhibit 485.

7 This is -- and which I would offer.

8 MS. GERBER: No objection.

9 THE COURT: Plaintiffs' Trial Exhibit 485 is  
10 admitted.

11 **(Plaintiff's Exhibit Number 485 was admitted into**  
12 **evidence.)**

13 BY MR. BOIES:

14 Q. This is an e-mail from Sarah Dahlgren to you and a  
15 number of other people on March 29, 2009.

16 Do you see that?

17 A. Yes.

18 Q. And let me ask you to look at the third paragraph,  
19 where it begins, I he indicated, and the he there is Ed  
20 Liddy; correct?

21 A. It appears to be, yes.

22 Q. Ms. Dahlgren writes, Ed Liddy indicated that Doug  
23 Steenland is very much on the fence -- the key issue is  
24 the same issue that's affecting all of the directors --  
25 it is unclear what role the board of directors really can

1 play in this situation -- if it can't make comp decisions  
2 or most other decisions, then what does the board really  
3 do?"

4 Do you see that?

5 A. Yes.

6 Q. And do you recall Sarah Dahlgren or other people  
7 telling you that that was Ed Liddy's view in March of  
8 2009?

9 A. I don't recall that.

10 Q. Do you recall receiving this e-mail?

11 A. I don't.

12 Q. The next paragraph says, "And not to state the  
13 obvious, but the same is true for Ed -- owe he has no  
14 decision-making authority -- and is paralyzed at this  
15 point by the U.S. government's role."

16 Do you see that?

17 A. Yes.

18 Q. And do you recall Ms. Dahlgren expressing that to  
19 you in words or in substance in March of 2009?

20 A. I don't.

21 Q. Did anyone, Ms. Dahlgren or anyone, at any time  
22 express the view to you that Mr. Liddy had no  
23 decision-making authority and was paralyzed by the U.S.  
24 government's role?

25 A. Not that I recall.



1 Q. Did anyone at any time express the view to you  
2 that the AIG board of directors believed that it was  
3 unclear what role they could play?

4 A. Not that I recall.

5 Q. Let me ask you to look next --

6 A. Would it be possible to add something?

7 Q. Yes. Just with respect to what?

8 A. Just with respect to your question here. I do in  
9 general recall around government capital injections in a  
10 lot of firms that we created or there was discussions of  
11 comp restrictions and other types of, you know,  
12 requirements imposed on the fact that they had government  
13 equity. I don't recall it unique to AIG. It doesn't  
14 stick out in my mind.

15 Q. / ( do you recall with respect to any other company  
16 a situation where the government had taken the steps that  
17 it took to control and manage AIG?

18 A. I don't know. I don't know how to -- no. I mean,  
19 not -- I don't know one way or the other.

20 Q. For example, are you aware of any other private  
21 company where the government as a condition of a  
22 13(3) loan took 79.9 percent of the equity?

23 A. I'm not aware of any other vehicle.

24 Q. Are you aware of any other company where the CEO  
25 in effect had no decision-making authority and was

1 paralyzed by the U.S. government's role?

2 A. I'm not even sure that that's an accurate  
3 characterization of Ed Liddy and that -- so I just don't  
4 know.

5 Q. Did you ever disagree with this e-mail from  
6 Ms. Dahlgren that's Plaintiffs' Trial Exhibit 485?

7 A. No. I don't remember the e-mail.

8 Q. Now, with respect -- you mentioned TARP.

9 TARP came after the AIG September 22 credit  
10 facility; correct?

11 A. Yes.

12 Q. So that whatever restrictions that were in that  
13 September 22 credit facility were not restrictions that  
14 originated in TARP; fair?

15 A. What that means, originated. I just know there  
16 may be similarities in the TARP conditions that were -- I  
17 just -- I don't know. I'd have to look at the --

18 Q. Are you finished?

19 A. Yeah.

20 Q. The restrictions may or may not be similar, but  
21 the fact that they were in the September 26 -- 22 credit  
22 facility didn't have anything to do with the later TARP  
23 enactment; correct?

24 A. No. No.

25 Q. I just want to be sure that I -- that the answer

1 is clear. When you say "no," you mean what I'm saying is  
2 correct?

3 A. It's correct that the.

4 MS. GERBER: Your Honor, I think that's a  
5 confusing question. Could counsel rephrase.

6 THE COURT: I think he's trying to find out what  
7 exactly the previous answer meant.

8 MS. GERBER: I understand.

9 THE WITNESS: Should I clarify.

10 MS. GERBER: Perhaps he can rephrase the question.

11 MR. BOIES: I'll restate it, Your Honor.

12 BY MR. BOIES:

13 Q. Do you agree that whether or not the September 22  
14 credit facility restrictions were or were not similar to  
15 TARP, they were not there because of TARP?

16 A. No. But TARP and this have in common that the  
17 government was putting equity or putting some stabilizing  
18 the company and that came with conditions. That's all I  
19 was -- that's all I meant.

20 Q. And the conditions in TARP were quite different  
21 than the conditions in the September 22 credit facility;  
22 correct?

23 A. That's what I -- I don't -- I don't recall  
24 specifically. I just know there were things around  
25 compensation and other types of things that were,

1 you know, kind of a common discussion around that time in  
2 conjunction with TARP as well as in the context of AIG.

3 Q. You do recall that the preferred stock that the  
4 government got from AIG was voting stock?

5 A. I don't.

6 Q. You don't recall that?

7 A. I don't recall that.

8 Q. Let me ask you to look at Plaintiffs' Trial  
9 Exhibit 1767-A, which is an e-mail from Mr. Checki to  
10 Mr. Geithner, yourself, with blind copies to other  
11 people.

12 Do you see that?

13 A. 176 --

14 Q. 7-A.

15 A. I have 176 -- oh, I see.

16 Q. 1767-A is just the last page?

17 A. They just looked different and I'm -- yeah.

18 Q. Just the last page and --

19 A. Yeah.

20 Q. Which I would offer.

21 MS. GERBER: We object, Your Honor. It doesn't  
22 appear that this is on their exhibit list, on the exhibit  
23 list, on the plaintiffs' exhibit list.

24 MR. BOIES: It is the last page of Plaintiffs'  
25 Trial Exhibit 1767 unless I'm misunderstanding -- let me

1 find out. This is in our -- one of our exhibits, and let  
2 me just find out what exhibit it is. I believe it is  
3 1767.

4 It is page 14 of Plaintiffs' Trial Exhibit 1767.

5 MS. GERBER: No objection, Your Honor.

6 THE COURT: All right. Thank you for checking  
7 that.

8 Plaintiffs' Trial Exhibit 1767-A is admitted.

9 **(Plaintiff's Exhibit Number 1767-A was admitted**  
10 **into evidence.)**

11 BY MR. BOIES:

12 Q. Did you receive this e-mail on or about  
13 October 23, 2008?

14 A. Yes. It looks like I did.

15 Q. And do you see at the end of subparagraph c  
16 Mr. Czech writes, "We are way beyond the proper role for  
17 the monetary authority. The U.S. Treasury now has an  
18 opportunity to do the right thing and use its new  
19 congressionally approved authority to make it and the  
20 Federal Reserve System both look better. If not, our  
21 credibility and our creditworthiness will potentially  
22 take a hit (and one might reasonably question whether Fed  
23 is complicit in allowing United States Treasury to use it  
24 to get around congressional authorization?)

25 Do you see that?

1 A. I do.

2 Q. Do you know what Mr. Checki was talking about  
3 there?

4 A. I don't -- I can't tell what the specific context  
5 is, so I don't.

6 Q. This is obviously a pretty powerful statement;  
7 correct?

8 A. Yes.

9 Q. And this is the kind of thing that when you  
10 received it, you would have noticed; fair?

11 A. Possibly. I -- there were -- there was a lot  
12 of -- there were a lot of things floating around then, so  
13 I don't -- I don't know that I noticed it, but I have no  
14 reason to think I didn't.

15 Q. Do you recall anything at all about it as you sit  
16 here now?

17 A. No. I don't -- the subject line doesn't ring a  
18 bell. I don't know what Q3 results refers to. I really  
19 don't. Sorry. I mean, I -- I -- yeah, I don't.

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

21 **(Pause in the proceedings.)**

22 Your Honor, I pass the witness.

23 THE COURT: All right. Thank you, Mr. Boies.

24 Ms. Gerber, cross?

25 - - - - -

**CROSS-EXAMINATION**

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BY MS. GERBER:

Q. Good afternoon.

Ms. McConnell, will you please turn in the binder that you just received to DX 421.

A. Yes.

Q. What is this exhibit?

A. It looks to be notes on a call between -- with -- I assume with Tim Geithner, Secretary Paulson and Chairman Bernanke.

Q. And are these your notes?

A. These are my notes.

MS. GERBER: Your Honor, I move DX had 21 into evidence.

MR. BOIES: No objection, Your Honor.

THE COURT: Defendant's Exhibit 421 is admitted.

**(Defendant's Exhibit Number 421 was admitted into evidence.)**

BY MS. GERBER:

Q. And just to keep everything clear, Your Honor, the last five pages of this exhibit are the same as PTX 105.

THE COURT: Right.

BY MS. GERBER:

Q. On the first page of DX 421, you'll see that sort of third break down starts significant risks could you

1 please read that for the court?

2 A. Significant risk that you won't recover principal  
3 and interest on this loan.

4 THE COURT: Could you speak up, please I can't  
5 hear.

6 THE WITNESS: Sorry. Significant risk that you  
7 won't recover principal and interest on this loan. .

8 BY MS. GERBER:

9 Q. And was this something you wrote because someone  
10 else said it?

11 A. I believe so.

12 Q. Do you know who said it?

13 A. I don't.

14 Q. And when it says "this loan," what is "this loan"  
15 referring to?

16 A. So I don't know -- I assume -- well, I guess this  
17 loan is the -- is a loan to the -- the loan they're  
18 contemplating or had made to AIG. But I don't -- I don't  
19 know for sure.

20 MS. GERBER: No further questions, Your Honor.

21 THE COURT: All right. Anything further,  
22 Mr. Boies?

23 MR. BOIES: We call as our next witness  
24 Ms. Sarah Dahlgren.

25 THE COURT: Ms. McConnell, thank you very much for



1 your -- Dr. McConnell I guess I heard. Thank you very  
2 much for your testimony. You are excused.

3 THE WITNESS: Thank you.

4 THE COURT: Please come forward. The witness box  
5 is right here to my left.

6 - - - - -

7 Whereupon --

8 **SARAH DAHLGREN**

9 a witness, called for examination, having been first duly  
10 sworn, was examined and testified as follows:

11 **DIRECT EXAMINATION**

12 BY MR. BOIES:

13 Q. Good afternoon, Ms. Dahlgren.

14 A. Good afternoon.

15 Q. We haven't met, but I assume that you have been  
16 told that I am David Boies and I represent the plaintiffs  
17 in this action.

18 A. Yes.

19 Q. We've given you up on your podium two binders.  
20 One is a copy of your complete deposition, and one is a  
21 binder that contains excerpts of some documents that I'll  
22 be referring to. What is in your binder for long  
23 documents are just the excerpts I'm going to be referring  
24 to, but if at any time you want to see the entire  
25 document for context, please let me know, and we'll have

1 it available.

2 A. Okay.

3 Q. And if there's any question that I ask you that  
4 you don't understand, just let me know, and I'll rephrase  
5 it.

6 A. Okay.

7 Q. I'd like to first hand up the binders to the  
8 Court.

9 THE COURT: Thank you.

10 MR. BOIES: Thank you.

11 BY MR. BOIES:

12 Q. And direct your attention to Plaintiffs' Trial  
13 Exhibit 485 that is already in evidence.

14 Is this a document that you sent on March 29, 2009  
15 to Mr. William Dudley, Thomas Baxter and a number of  
16 other people?

17 A. Yes, it is.

18 Q. We've already identified addressees James Hennessy  
19 and Michael Silva and Ms. McConnell and Terrence Checki,  
20 but who is Michael Schetzel?

21 A. Mike Schetzel was Bill Dudley's chief of staff at  
22 this time.

23 Q. Let me direct your attention to the subject where  
24 you say just got off the phone with Ed Liddy. Am I  
25 correct that what you're doing here is reporting on a

1 conversation that you personally had with Mr. Liddy?

2 A. Yes.

3 Q. And I'd like to direct your attention to the third  
4 paragraph, where you say that Mr. Liddy indicated that  
5 Doug Steenland is very much on the fence.

6 Do you see that?

7 A. Yes, I do.

8 Q. And Mr. Steenland was then and is today a director  
9 of AIG; correct?

10 A. Yes, he is.

11 Q. And you say the key issue is the same issue that's  
12 affecting all of the directors -- it's unclear what role  
13 the board of directors really can play in this  
14 situation -- if it can't make comp decisions or most  
15 other decisions, then what does the board really do?"

16 Do you see that?

17 A. Yes, I do.

18 Q. And does that fairly reflect what Mr. Liddy had  
19 told you?

20 A. It does reflect what Ed told me.

21 Q. And then you go on to say and not to state the  
22 obvious, but the same is true for Ed. He has no  
23 decision-making authority and is paralyzed at this point  
24 by the U.S. government's role.

25 Do you see that?

1 A. Yes, do I.

2 Q. Now, does that reflect something that Mr. Liddy  
3 said to you or does it reflect your conclusion or both?

4 A. It reflects both.

5 Q. Let me ask you to turn next to Plaintiffs'  
6 Exhibit 489, which I would offer.

7 MS. ACEVEDO: Your Honor, we're going to object on  
8 hearsay grounds. It appears to be a set of work papers  
9 from Deloitte & Touche. There's no -- there's no way to  
10 tie this to this witness looking at this document.

11 MR. BOIES: Two things, Your Honor. First,  
12 Deloitte & Touche was a professional advisor to the  
13 Federal Reserve Bank and this memo is directed to FRBNY  
14 working papers. In addition, part of the analysis of it  
15 is based on Deloitte & Touche's discussions with the  
16 witness.

17 MS. ACEVEDO: Your Honor, it's unclear looking at  
18 this document that the analysis is based on discussions  
19 with this witness.

20 THE COURT: I will overrule the objection.  
21 Plaintiffs' Trial Exhibit 489 is admitted.

22 **(Plaintiff's Exhibit Number 489 was admitted into**  
23 **evidence.)**

24 MS. ACEVEDO: Thank you, Your Honor.

25 BY MR. BOIES:

1 Q. Let me direct your attention to page 7. The first  
2 paragraph, the last sentence, where it says based on  
3 engagement team discussions with Sarah Dahlgren, the  
4 FRBNY senior loan supervisor of AIG, this loan was viewed  
5 as debtor in possession financing (e.g., lending to an  
6 institution after it enters into bankruptcy) thus  
7 supporting the contention that AIG was troubled at  
8 origination."

9 Do you see that?

10 A. Yes, I do.

11 Q. And is it the case that you worked with  
12 Deloitte & Touche?

13 A. Deloitte & Touche were at that time the  
14 Federal Reserve Bank of New York's accountants. I did  
15 not work with them.

16 Q. Did you have the discussions that they refer to  
17 here?

18 A. I imagine I did since it's referenced here. I  
19 don't recall the discussion.

20 Q. Did you talk to the Deloitte & Touche people about  
21 the AIG loan and what you were doing?

22 A. We had discussions early on with Deloitte & Touche  
23 as to how they would need to account for the loan, so  
24 yes, we had early interactions with them.

25 Q. And when you say we, does that include you?

1 A. It does include me.

2 Q. And you were responsible for -- how would you  
3 describe it? How would you describe your role with  
4 respect to AIG starting in September 16 or 17?

5 A. I was responsible for the AIG monitoring team,  
6 which was responsible for monitoring the loan that was  
7 made to AIG and ensuring that we got paid back.

8 Q. And you were given that assignment by Mr. Geithner  
9 personally; correct?

10 A. Yes, I was.

11 Q. And when did Mr. Geithner give you that  
12 assignment?

13 A. On Tuesday, September 16, I was called over to his  
14 office roughly midday around noon.

15 Q. And when he called you over, although you don't  
16 remember exactly what he said, he said in substance  
17 you're going to take on AIG. We are going to make them a  
18 loan, and you are going to run it; correct?

19 A. Yes, correct.

20 Q. And that was the first time that you were aware  
21 that the New York Fed was willing to make a loan to AIG;  
22 correct?

23 A. Yes, that's correct.

24 Q. And in terms of leading the Federal Reserve effort  
25 with respect to AIG, you were assisted by both

1 Federal Reserve personnel and by personnel from other  
2 professional organizations that you retained; correct?

3 A. Yes, that's correct.

4 Q. How many people did you have on your team that  
5 were from the Federal Reserve itself that were on-site at  
6 AIG?

7 A. Early in the life of the AIG monitoring team, it  
8 was relatively small, about ten. It grew to upwards of  
9 20 later on. And we were not actually on-site at AIG.  
10 We had home base at the New York Fed.

11 Q. Did you have people on-site at AIG?

12 A. The team spent an enormous amount of time over at  
13 AIG. We had a room that people could go to in between  
14 meetings if they needed to, and we had people who spent  
15 much of their time at AIGFP up in Connecticut.

16 Q. Did you also have people that spent much of their  
17 time at AIG's headquarters?

18 A. Between -- between all of the meetings that we  
19 spent time at at AIG, we spent a considerable amount of  
20 time at AIG, but our home base was at 33 Liberty Street.

21 Q. Now, 33 Liberty Street is how many blocks from  
22 AIG's headquarters?

23 A. Roughly two.

24 Q. And you spent at least part of every day at AIG;  
25 correct?

1 A. Certainly at the early stages, yes.

2 Q. And how long did that continue?

3 A. I was responsible for the AIG monitoring team up  
4 through September 2010.

5 Q. And who became responsible after that?

6 A. Jonathan Polk became responsible after I left.

7 Q. I should have asked you this at the beginning have  
8 what is your present position?

9 A. I am currently the head of the financial  
10 institution supervision group at the Federal Reserve Bank  
11 of New York.

12 Q. And when you left your role in September of 2010,  
13 what was your next position?

14 A. I -- in September 2010, I moved over to for  
15 three-month transition period in advance of taking over  
16 as head of the supervision group in January of 2011.

17 Q. Now, in addition to you personally, the rest of  
18 your team on an average day would spend at least part of  
19 that day at AIG; correct?

20 A. Yes. Most of the time.

21 Q. In addition to your Federal Reserve team, you had  
22 other professionals helping you; correct?

23 A. Yes, we did.

24 Q. And from what firms?

25 A. So from Ernst & Young, from Morgan Stanley and



1 from Davis Polk and those three were the primary outside  
2 firms that assisted us.

3 Q. And am I correct that each of those organizations,  
4 Ernst & Young, Morgan Stanley, Davis Polk, would submit  
5 bills for their time?

6 A. Yes. They submitted bills to us to be reimbursed.

7 Q. And those bills would show how many hours they had  
8 devoted?

9 A. So in the case of E&Y and Davis Polk, that was the  
10 case. The Morgan Stanley arrangement was slightly  
11 different.

12 Q. What was the Morgan Stanley arrangement?

13 A. The Morgan Stanley arrangement was one that was  
14 more of an investment banking arrangement and so they  
15 were paid based on transactions in that regard.

16 Q. How many personnel did Morgan Stanley have working  
17 with you on AIG?

18 A. I don't recall the exact number. It could have  
19 been somewhere in the 20 to 30 or 40.

20 Q. And how many personnel did Ernst & Young have  
21 working with you on AIG?

22 MS. ACEVEDO: Your Honor, we're going to just  
23 object with respect to type. If he could be more  
24 specific, that would be helpful.

25 THE COURT: All right.

1 BY MR. BOIES:

2 Q. What was the most number of people that E&Y had  
3 working on AIG at any one time?

4 A. Very early in the AIG monitoring team's life, the  
5 probably upwards of a hundred people from E&Y, which  
6 decreased over time.

7 Q. Let me approach it this way.

8 In September of 2008, approximately how many E&Y  
9 personnel were working with you on AIG?

10 A. After E and -- after the engagement with E&Y,  
11 there could have been upwards of a hundred at any given  
12 point in time in September, late September.

13 Q. And did that change in October of 2008?

14 A. It was still substantially close to a hundred.

15 Q. When did it first change?

16 A. Probably going into the March time frame.

17 Q. And that would be going into March of 2009?

18 A. 2009. I'm sorry. Yeah.

19 Q. And in the period after March of 2009,  
20 approximately how many E&Y people were working with you  
21 on AIG?

22 A. I don't recall. It was substantially less than  
23 the initial high point.

24 Q. Can you give me some approximation?

25 A. 50?

1 Q. Now, with respect to Davis Polk, how many  
2 Davis Polk lawyers were working with you on AIG?

3 A. I don't know the exact number. 10-20.

4 Q. Just during 2008, the months of September,  
5 October, November and December, how much was paid to  
6 Ernst & Young and Davis Polk for their assistance working  
7 with you on AIG?

8 A. I don't know.

9 Q. Approximately.

10 A. A lot. I'm sorry. I literally -- I actually  
11 don't know the number.

12 Q. Could you just give me a range.

13 A. \$10 million.

14 Q. And during 2009, approximately how much was paid  
15 to Ernst & Young and Davis Polk for their assistance in  
16 working with you on AIG?

17 A. I'm purely guessing. I don't know. More than  
18 \$10 million.

19 Q. Can you be any more specific than that? In other  
20 words, can you tell me whether it was as much as  
21 \$50 million?

22 A. Literally -- I literally don't remember.

23 Q. Who had to sign off on these bills in order to  
24 authorize them for payment?

25 A. Many times I had to authorize that the work was

1 actually done.

2 Q. So did you have a budget?

3 A. There -- no have the bills were submitted and I  
4 had to confirm that the work was actually done.

5 Q. But did you have a budget that you were supposed  
6 to fit within in terms of how much you were supposed to  
7 spend?

8 A. Spend on?

9 Q. AIG, the work you were doing with AIG.

10 A. No.

11 Q. Did you have to make reports to anyone about how  
12 much you were spending in connection with your work at  
13 AIG?

14 A. So our chief financial officer would routinely  
15 receive information about what was being spent on the AIG  
16 monitoring efforts.

17 Q. And who was that?

18 A. At the time it was Ed Murphy.

19 Q. Did you receive those reports?

20 A. I don't recall.

21 Q. Did anyone ever suggest to you that you were  
22 spending too much money on your work with AIG?

23 A. Not that I recall.

24 Q. Did you review with anyone at AIG how much money  
25 you were planning to spend in advance of actually

1 spending it?

2 A. On -- with somebody at AIG?

3 Q. Yes.

4 A. No.

5 Q. AIG ultimately had to pay for all this; correct?

6 A. As part of the credit agreement they were required  
7 to pay us back, that's correct.

8 Q. Now, is it the case that both E&Y and  
9 Morgan Stanley were providing estimates of the values of  
10 AIG assets that were used for collateral?

11 A. Morgan Stanley provided valuation early on and  
12 then E&Y did another valuation for us after that.

13 Q. Well, there were periodic evaluations done by E&Y;  
14 correct they didn't just do one they did periodic  
15 valuations; correct?

16 A. We received from E&Y a valuation that we used at  
17 the beginning throughout the exercise.

18 Q. And did that valuation ever change?

19 A. Not from the number that we used from the initial  
20 valuation.

21 Q. You said that Morgan Stanley provided valuations  
22 at the beginning. Did Morgan Stanley continue to provide  
23 updated valuations to the Federal Reserve?

24 A. Morgan Stanley provided us with valuations of  
25 assets as we were going into particular asset sales.

1 Q. And the valuations that AIG or the valuations of  
2 AIG assets that Morgan Stanley prepared were used in  
3 terms of evaluating whether you were fully collateralized  
4 or not; correct?

5 A. That was one use of the early valuation.

6 Q. Now, you said early valuations.

7 Morgan Stanley continued to value the assets that  
8 had been pledged as collateral by AIG in 2009, 2010 as  
9 well; correct?

10 A. Correct.

11 Q. And were those valuations used by the  
12 Federal Reserve to assure itself at least in part that  
13 the loan was adequately collateralized?

14 A. We continued to make that assessment.

15 Q. I'd like to turn to what you did after your  
16 conversation with Mr. Geithner.

17 When did you first go to AIG itself?

18 A. Wednesday morning, the 17th of September.

19 Q. Now, prior to going to AIG on September 17, had  
20 you had any conversations with anyone about AIG, other  
21 than Mr. Geithner?

22 A. Prior to going to AIG, did I talk to anybody about  
23 anything related to AIG?

24 Q. Let's begin with that.

25 A. So I had on Monday night been asked by the head of

1 supervision to form a team to look at some exposures of a  
2 variety of counterparties to AIG, so we had a  
3 conversation internally among that team about exposures  
4 to AIG.

5 Q. Who is the person that you're referring to?

6 A. Bill Rutledge, the head of supervision, had asked  
7 us to do this analysis.

8 Q. And did you prepare any written work product that  
9 discussed the exposure of certain counterparties to AIG?

10 A. That was what we produced Monday night. Yes.

11 Q. And you gave that to Mr. Rutledge?

12 A. It was communicated to Bill. I don't know how it  
13 got there.

14 Q. Who worked with you on the analysis exposure of  
15 various counterparties to AIG?

16 A. I don't remember everybody in the room, but it  
17 was, you know, a combination of people that I worked with  
18 in supervision.

19 Q. Who were the counterparties that had the greatest  
20 exposure to AIG?

21 A. I don't remember the names. I remember there was  
22 a range of both domestic banking institutions, but also a  
23 range of foreign banking institutions.

24 Q. Do you remember any of the names of domestic  
25 banking institutions that had significant or substantial

1 exposure to AIG?

2 A. I would be guessing at this point.

3 Q. That is, without guessing, you can't give me a  
4 single name; is that correct?

5 A. Without guessing, I can't give you a single name.

6 THE COURT: Mr. Boies, shall we adjourn here nor  
7 the day?

8 MR. BOIES: Yes, Your Honor.

9 THE COURT: Okay. We'll see you tomorrow morning,  
10 Ms. Dahlgren.

11 THE WITNESS: Thank you.

12 THE COURT: All right. We'll adjourn until 9:30  
13 tomorrow.

14 \*\*\*\*\*END OF ROUGH DRAFT\*\*\*\*\*

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