

# INSIDE AIG'S TORTUOUS TURNAROUND

Over the past two years, the insurance giant has gone from financial basketcase to a company with a future. Here's how it happened.



REUTERS/JASON REED

BY PARITOSH BANSAL, KRISTINA COOKE  
AND DAVID LAWDER  
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**D**URING A RAINSTORM in Washington in early 2009, amid the furor over Wall Street's post-bailout bonuses, an American

International Group employee pulled out an umbrella that had the insurer's name on it.

"Somebody came by, grabbed the umbrella and broke it," said AIG Chief Executive Robert Benmosche, who added that the attacker told the employee to engage in a sexual act impossible to

perform on oneself.

The anger over AIG's \$182.3 billion taxpayer-funded bailout was palpable across the United States. Concerned that its employees faced potential physical violence beyond destroyed umbrellas, the company changed its identity cards in the spring

## "WHAT I MADE VERY CLEAR IS THAT I AM GOING TO BE EXTREMELY AGGRESSIVE."

of 2009, replacing its familiar logo with a design that left off the company's name.

Benmosche said when he took over as CEO in August 2009 he was struck by the fear among AIG's employees. Financially, the company was in a free-fall. AIG lost about \$100 billion in 2008, including \$62 billion in the largest quarterly loss in corporate history. In late 2008, the company opened its doors to buyers in a desperate attempt to sell its far-flung businesses, but the effort quickly fell apart due to low-ball bids and lack of financing.

AIG has come a long way since then, rebounding far faster and more dramatically than nearly anyone inside or outside the company expected.

As a result, the U.S. Treasury Department, which will own more than 90 percent of the company, is likely to hold two large stock sales next year and aims to offload the rest in 2012, a source familiar with the situation said. In the first stock issue, perhaps as soon as March, Treasury could sell about one-fifth of the insurer in a \$10 billion-plus offering.

A big profit from the AIG rescue and the government's eventual disentanglement ahead of U.S. elections in 2012 would be a boost for the Obama administration, coming on the heels of similar successes at Citigroup Inc and General Motors.

But this remarkable reversal of fortune has taken a tortuous path, and the way ahead is not without risks.

For one thing, Benmosche, in whom AIG's roughly 100,000 employees found a leader when all hope seemed lost, is battling cancer. For another, Chartis and SunAmerica Financial -- the general insurance and domestic life subsidiaries that form the core of what's left of the company -- face significant operational and competitive challenges.

Interviews with more than a dozen people involved in the restructuring -- on all sides of the endeavor -- reveal new details about the behind-the-scenes maneuvering, setbacks, debates and conflicts over the past year as AIG struggled to free itself of government support.

Politics, personality clashes, controversial incentives and intense debates over strategy at first complicated the turnaround but also ultimately accelerated it, these interviews revealed.

The company itself became a battleground. A rift between management and some



**TOUGH BOSS:** Benmosche, in whom AIG's roughly 100,000 employees found a leader when all hope seemed lost, is battling cancer. **REUTERS/YURI GRIPAS**

members of the board that festered for nearly a year eventually forced former Chairman Harvey Golub to leave. He resigned on July 14.

AIG and its federal overlords also sparred. Over the summer, the government became frustrated with the company, complaining that AIG was taking its support for granted when the board pulled the plug on a huge asset sale.

And there were arguments within the government itself, as the Treasury Department and the U.S. Federal Reserve negotiated how much risk each of them would retain as the bailout unwinds.

Despite these complications, though, the plan for the insurer to extricate itself from government ownership came together relatively quickly on Sept. 30, just four months after a key \$35.5 billion asset sale to Britain's Prudential fell through, surprising



**ANONYMOUS:** Concerned about threats to its staff, AIG changed its identity cards in the spring of 2009, replacing its familiar logo with a design that left off the company's name. AIG has now switched back. **HANDOUT/AIG**

critics as well as some of those involved in the process.

Insiders say the toughest parts of the restructuring are behind them and expect the path from here to be smooth, barring any unforeseen external shocks like a natural disaster that results in a big loss at Chartis.

Indeed, some key players are already moving on. Sarah Dahlgren, who led the

New York Fed's AIG team, left in the summer to become head of bank supervision at the regional central bank, where she will be joined by Steven Manzari, another senior New York Fed official.

Dahlgren said she already missed "the challenges, the raging debates we had about things we wanted to do or didn't want to do. It required a lot of pushing, debating and getting your point straight."

Ruth Porat, a Morgan Stanley banker advising the government, took over as the Wall Street firm's CFO earlier this year. And Jim Millstein, the Treasury's main official on AIG, is looking at potential new assignments as the exit plan is completed.

For all the positive signs, however, no one is unfurling the "mission accomplished" banner. Given the unpredictable path the restructuring has taken, caution may well be warranted.

## HARD-CHARGING CEO

IN JANUARY 2009, Benmosche, a former MetLife Inc CEO, watched as the insurance industry took a beating in the markets.

"Although I am financially secure I said to myself, 'What does it mean for my kids and to everybody else?'" he said.

That's not to say he didn't need a lot of persuasion when executive search firm Spencer Stuart came knocking in June, having identified him as one of the candidates to run AIG. He met with Treasury Secretary Timothy Geithner, White House economic adviser Larry Summers and the then recently appointed Treasury pay czar Kenneth Feinberg.

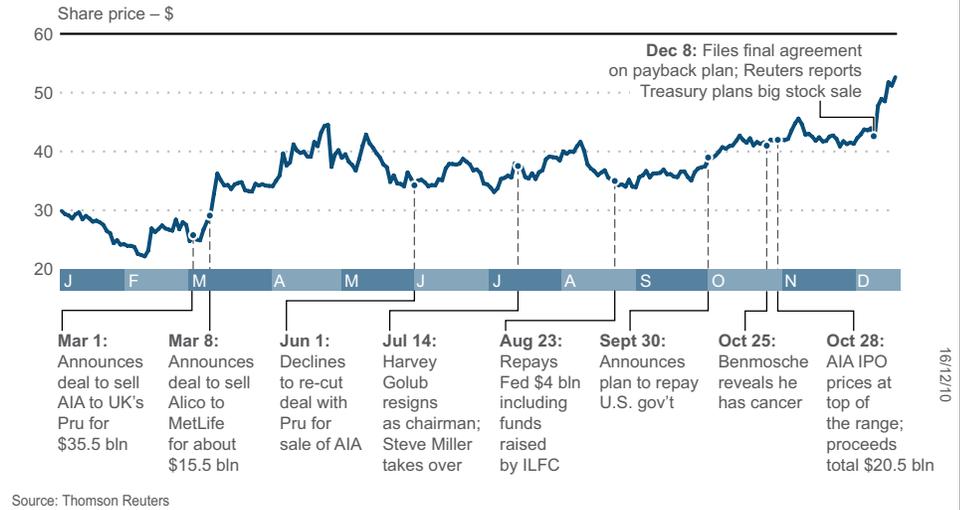
"What I made very clear is that I am going to be extremely aggressive, that I feel the way this has been handled up until now has been wrong, and that I am going to be public about the fact that I think it is wrong," said Benmosche, who at 6 feet 4 inches towers over most people.

Negotiations over pay stretched into the weeks after Benmosche started his job on Aug. 10, 2009. Sources said he threatened to quit over the issue and by September that year, his compensation had become a source of tension between him, AIG's board and the government. He eventually had his way, winning a \$7 million package that was finally implemented in November 2009.

Feinberg and pay became a source of consternation again in early 2010 -- this time over compensation for his team, sources said. Benmosche once again said he would

## AIG in 2010

The key events that shaped AIG this year.



leave if it was not resolved, sources said, and again he got his way.

In February, for instance, Peter Hancock, executive vice president for finance, risk and investments, was hired at a package of \$7.5 million. Benmosche wanted to be sure that he would have the ability to retain and attract good people to AIG, Millstein said.

Millstein added that Benmosche needed to know that he could secure a commercially reasonable deal for himself that could be used as a model for other senior executives.

## IT'S HIM OR ME

THE NEXT TIME Benmosche threatened to quit it was over a spat with AIG's directors.

AIG's board is made up of a number of former business heavy-weights, used to running their own companies and who had volunteered to help get AIG back on its feet.

While the board was focused on a public float of AIA, AIG's valuable Asian life insurer, Benmosche started talking to Prudential CEO Tidjane Thiam in late fourth quarter 2009 about a possible deal for the insurance subsidiary.

By the time the Treasury called Benmosche to suggest he start speaking to Thiam, Benmosche had already met the Prudential CEO.

Benmosche summarized his message to Thiam as follows: "If you come back and see your way clear to pay \$34 billion, most of it in cash, I am happy to talk. But if you can't see your way clear, let's not kid ourselves."

Many directors, meanwhile, were kept in the dark about discussions with Prudential until the talks were well-advanced. Even Golub, who was chairman then, was brought into the discussions only in early 2010.

For some directors the Pru deal seemed to come out of nowhere just when AIG was about to launch the IPO of AIA, Millstein said. "It did create some horrible board dynamics," he said.

Directors were kept out of the loop because of fears that the deal information would leak, said Millstein, who described the AIG board as a "sieve in late 2009." When the deal finally came before the board for a vote in February, directors were split in the middle between an IPO and a sale, even though Benmosche pushed for a deal.

Ultimately the board unanimously backed Benmosche. One persuasive argument was that the board should support the CEO when it's such a close call because if it doesn't trust the management it has a bigger problem on its hands than the deal, sources said.

The tensions in the boardroom were further exacerbated because Benmosche and Golub did not seem to get along. People who know them say the two clashed because they had similar personalities and were used to having things their way. Golub did not return phone calls seeking an interview for this article.

The flashpoint came when the deal started to falter. After agreeing to the \$35.5 billion sale, the British insurer ran into a series of problems -- first with its regulators and then its shareholders -- forcing it to try to redo the deal.



**TROUBLE IN ASIA:** AIA CEO Mark Tucker was brought in to lead the Asian unit's IPO after Benmosche suspected AIA insiders undermined a deal to sell the unit. **REUTERS/BOBBY YIP**

During negotiations that went on over the U.S. Memorial Day weekend at the end of May -- which was also a British bank holiday -- Prudential first came back indicating shareholders supported a deal somewhere between \$28 billion and \$29 billion, sources said. That led to further negotiation, and the two sides agreed to a new \$30.5 billion agreement subject to approvals, sources said.

When Benmosche and his key senior managers -- Hancock, Brian Schreiber and David Herzog -- took the deal for board approval, directors wanted reassurance that Thiam would be able to close even at the lower price. Some of Pru's shareholders had come out against the deal.

Having already put off the IPO once, the board was loath to delay a public offering again and risk missing the window to launch a public float in the fall. It told management to come back with shareholder commitments over the weekend. Prudential got some

shareholders to agree, but some didn't commit and some could not be reached over the holiday weekend, sources said.

"We knew several major shareholders were going to change their vote the next day to yes," Benmosche said. "But the problem the AIG board faced was how do we know that they are going to get to 75 percent? There was a concern that you are accepting a lower price and you may not get it."

Benmosche said at one point he asked Pru to flip the process and have the British insurer's board vote on the deal first and take the risk of the shareholders rejecting it. "They chose not to do that. It was really wrong to put the whole burden on the AIG board, which had negotiated in good faith," he said.

Prudential declined to comment.

On a marathon conference call on Memorial Day, Blackstone, advising the AIG board, recommended stopping talks at a reduced price and going for an IPO instead. Morgan Stanley, which was advising the government,

saw more value in an IPO unless the board was confident the Pru deal would close. Citigroup and Goldman, which were advising AIG on the deal, laid out the arguments and risks for both outcomes. A banker put a 60 percent chance of the deal going through.

That night, the board decided to kill the deal. "There was a whole constituency of the board that didn't like the deal from the beginning. And this was their way of saying, 'Look, it just pays to wait,'" Benmosche said.

Benmosche recounted that his first step after the board killed the deal was to call Golub. "I said you see things one way, I see another way. So I think we need to reconcile where we are and whether we can go forward," he said. "It was very clear that he and I didn't see eye to eye."

Benmosche said he also suspects that people within AIA, which was led by Mark Wilson at the time, wanted an IPO and were undermining the deal by badmouthing Prudential. The AIG board hoped that

# BLOG

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<http://link.reuters.com/heq72q>

allowing Benmosche to fire Wilson as AIA chief would be enough to placate the CEO. Wilson was replaced with former Prudential CEO Mark Tucker.

Later that summer Benmosche told the board he would quit unless Golub left. At a board dinner, the directors discussed the clash and decided to tell them both to essentially grow up and get along. But Benmosche stood firm, telling the directors it was him or Golub, sources said.

The board never had to decide between the two as Golub resigned. In his resignation letter, Golub told the board that it was easier to replace him than Benmosche.

AIG moved fast.

Even as Golub was writing his letter, the board's nominating and corporate governance committee met, while a few directors remained in the boardroom as the day wound down. Suzanne Nora Johnson, one of the directors on the committee, came back to the boardroom and asked Robert "Steve" Miller, a restructuring expert who has spent some three decades putting out corporate fires, to come out. The board offered him the chairmanship. He asked if he could make one phone call first: to check with his wife, Jill Jablonski. He then accepted the offer.

## GOVERNMENT STEPS UP PRESSURE

AT THE HEART OF THE debate was a fundamental split on strategy and speed.

Some directors believed that AIG should hold on to assets instead of rushing to sell them at cut-rate prices, selling them later as the economy recovered and the businesses improved. They were ultimately vindicated, when in late October AIA's IPO raised \$20.5 billion and market value topped \$35.5 billion in its Hong Kong debut.

Others and the management team thought government ownership was hampering the company's ability to grow, as uncertainty about its future and restrictions on financial flexibility hurt operations, insiders said. They did not want to wait for higher value if a deal now could help accelerate the payback.

At the same time, the politics became trickier. The administration was under

pressure to show progress at AIG, especially after GM and Citigroup were turning around. Moreover, the politically contentious Troubled Asset Relief Program was set to expire in October and mid-term elections were due in November.

The board was in a tight spot. As fiduciaries to shareholders, including the Treasury, the board had a responsibility to try to maximize value for them.

Bailout capital was much cheaper than what AIG could get in the market and they had time before it needed to be paid back. But the politics, the popular anger around bailouts and the taint of the rescue made it tough for a decision to be based just on economics.

The killing of the Prudential deal appeared to put a spanner in the works for a quick payback. It also added to the frustration of government officials who were increasingly upset by what they saw as some directors' tendency to see taxpayer support as cheap, long-term capital, sources said.

Treasury's Millstein was so incensed he asked AIG CFO David Herzog to explain to the board how precarious the insurer's situation was: AIG was still highly leveraged, it wasn't current on interest and dividends it owed to the Fed, and without waivers it would default on the Fed loan.

Millstein said he felt some directors didn't share his sense of urgency in getting the Fed repaid. "I personally thought that the opportunity to take that much cash and deleverage that company quickly was a missed opportunity," he said. "It was clear to me that they had a different view of the facts."

At the same time in June, the Treasury asked for a formal response to restructuring proposals it had given to AIG. Millstein said the board formed a subcommittee and the company produced a counterproposal, eventually bringing everyone on the same page. "We were off to the races," he said.

In August, AIG's aircraft leasing company International Lease Finance Corp (ILFC) paid back nearly \$4 billion in loans to the Federal Reserve.

The Fed wanted the money back, Benmosche said. "They said, 'Look, you owe us \$4 billion. We did that to keep you from defaulting. You didn't default. You have access to the debt markets. It's very expensive. That's not our problem. And so you need to get us back in the money,'" he said.

Dahlgren said the Fed was always looking for ways to be repaid. She said the terms of

## THE CHANGING SHAPE OF AIG'S BAILOUT

THE U.S. GOVERNMENT BAILOUT of insurer American International Group Inc ultimately totaled just more than \$182 billion, but the size and form of the rescue changed a number of times over the years.

Following are the highlights of the various key stages of the program:

### SEPT. 2008

The Federal Reserve Bank of New York agrees to lend AIG \$85 billion to prevent a "disorderly failure" of the company. The U.S. government gets a 79.9 percent stake in AIG, which plans to use the money to finance the sell-off of assets.

### NOV. 2008

As the company reports a quarterly loss of nearly \$25 billion, the government announces a restructured plan of nearly \$150 billion that eases terms on AIG but leaves the taxpayer exposed to potentially billions of dollars in losses.

### MARCH 2009

AIG and the government announce the third revision to the plan after AIG posts a quarterly loss of nearly \$62 billion. The new aid plan puts another \$30 billion at AIG's disposal, eases terms to save AIG \$1 billion a year in payments and preserves more capital to help AIG stay in business.

### SEPT. 2010

AIG, the New York Fed and the Treasury agree on a complex recapitalization plan. The deal, in essence, pays off the New York Fed entirely and leaves the company obligated only to the Treasury. The government's stake in the company will rise to 92.1 percent under the deal, expected to close no later than March 15, 2011. After it is completed, the Treasury can begin selling shares in the market. People familiar with the situation say Treasury is planning a massive stock offering of as much as a 20 percent stake in the first half of 2011.

Source: Reuters stories  
(Reporting by Ben Berkowitz)

## INTERACTIVE

Valuation of Treasury's stake in AIG:  
<http://link.reuters.com/qec56p>

the loans were fairly onerous to ILFC, particularly the amount of collateral the Fed required to be tied up to protect the taxpayer.

"The timing was they were able to access the market. It was a constant dialogue," she said.

### TIGHT SQUEEZE IN THE WAR ROOM

IN RESCUING AIG in 2008, the Fed, by its very nature a conservative institution, had stepped far outside its comfort zone.

In New York, the Fed had pulled some of its best people from bank supervision and created a war room on the 13th floor of its offices in downtown Manhattan to tackle AIG. The roughly 20 foot by 15 foot (6 by 4.5 meter) conference room was packed with some 15 Fed officials working long hours for weeks through early 2009. Even now one can see spots where the veneer on the cherry conference table has worn off from use.

"It was like eating on an airplane. It was intimate," said Jonathan Polk, a senior vice president on the AIG monitoring team at the New York Fed.

The central bank stretched itself further, when in early 2009 it agreed to swap some \$25 billion of debt for equity in two special purpose vehicles, or SPVs, that were created to hold AIA and Alico, another large foreign life insurance unit. That transaction, which closed in December 2009, laid the groundwork for AIG's restructuring.

The Fed, which had come under immense criticism for its extraordinary actions and whose political independence seemed at risk, was eager to be repaid.

An early iteration of the recapitalization plan negotiated this summer would have had the Fed's credit line to AIG to be paid in full, but the central bank retain its \$25 billion of preferred shares in the SPVs, sources said.

The Fed pushed back.

"We didn't think it was a good idea for us or the taxpayer to be in a worse position than we were pre-restructuring. There was a dialogue back and forth," Dahlgren said.

Millstein said ultimately the Treasury agreed that made sense. "They are a central bank and were entitled to get back to what they did for a living before the crisis."

Under the plan that was agreed upon, the Fed will be paid in full and end its involvement in the insurer by the end of first

## Profit scenarios for Treasury's stake in AIG

The Treasury's \$49.1 billion of preferred shares in bailed-out insurer AIG will be converted to 1.655 billion shares of common stock and sold over time.



Reuters graphic/Van Tsui

*"IF YOU LOOK AT THE NUMBERS AND THE BUSINESS AND THE PAST OF THE COMPANY AND THE GROWTH TRENDS OF TODAY THAT GET REPORTED, THERE'S VALUE."*

quarter -- and perhaps as soon as Dec. 31. The Treasury would buy out the Fed's equity interest and convert its preferred shares into common stock, ending up with 1.66 billion shares before selling them off in the market.

The simpler structure should remove some of the uncertainty around investing in AIG, making it easier for the insurer to raise capital and the Treasury to wind down its stake.

The Treasury Department has different kinds of preferred shares, and the price at which they would be converted to common stock was a sticking point during negotiations, with the company pushing to minimize the dilution its other shareholders would suffer, sources said.

Ultimately, a compromise was struck. Different types of preferred shares were converted at different rates, and existing shareholders got warrants to buy up to 75 million shares at \$45 apiece -- the price at which certain types of Treasury's preferred

shares also converted.

Overall, a stock sale at more than around \$30 per share would leave the Treasury with a hefty profit. AIG's shares, which have rallied 43 percent since the exit plan was announced on Sept. 30, closed at \$53.42 on Monday, making the Treasury's stake worth \$89 billion.

It spent \$49.1 billion for the stake.

The Treasury is now thinking of ways to maximize its returns as it deliberates over the size and scope of the stock offerings.

At one point, the Treasury had considered spinning off Chartis or SunAmerica, as it's becoming rare for insurance companies to have property-casualty and life insurance together, which have few overlaps. But it decided against it.

"We ultimately concluded that, for the foreseeable future, keeping the two businesses and the diversity of their cash flows was important to AIG's financial strength going forward," Millstein said.

However, not everyone agrees on the amount of money the government will make. The Special Inspector General for the TARP, the top bailout cop, said in October that the Treasury's bailout cost estimate for AIG used misleading numbers to paint a positive pre-election account of the program.

AIG is already trading above its book value of \$48.24 per share as of Sept. 30, and experts said the shares were "fairly valued."

Cathy Seifert, an insurance equity analyst at Standard & Poor's, said AIG's biggest

risk for the short term is executing the recapitalization plan and getting the holding company back on solid footing.

Another concern is Chartis, which faces a tough market: Prices for commercial property and casualty insurance have declined to levels not seen since 2000, according to a Barclays report. Likewise SunAmerica is grappling with a low interest rate environment that hurts investment income and profits.

The units must also undo the damage to the parent company's reputation: How do you sell life insurance to Americans as an AIG company?

"I have a hold on the stock and at this point my inclination is to sit tight with that," Seifert said.

Some investors are quite bullish. Bruce Berkowitz, whose Fairholme Capital Management is the largest private shareholder of AIG with 30 percent of the outstanding stock, has been buying into the insurer throughout this year.

"If you look at the numbers and the business and the past of the company and the growth trends of today that get reported, there's value," Berkowitz said in an interview in October. "There's just a misunderstanding of the values and of the proposed solution."

AIG is hoping other institutional shareholders feel the same way and wants to attract them back into the stock.

Besides the insurance companies, AIG also has ILFC, which has resolved its debt problems. AIG's value of its stakes in Maiden Lane II and III -- the entities that were created to remove toxic securities from its books in late 2008 -- also has been rising as markets recover. And, of course, when the stock is ultimately brought back into the S&P 500 it would get another boost from index funds.

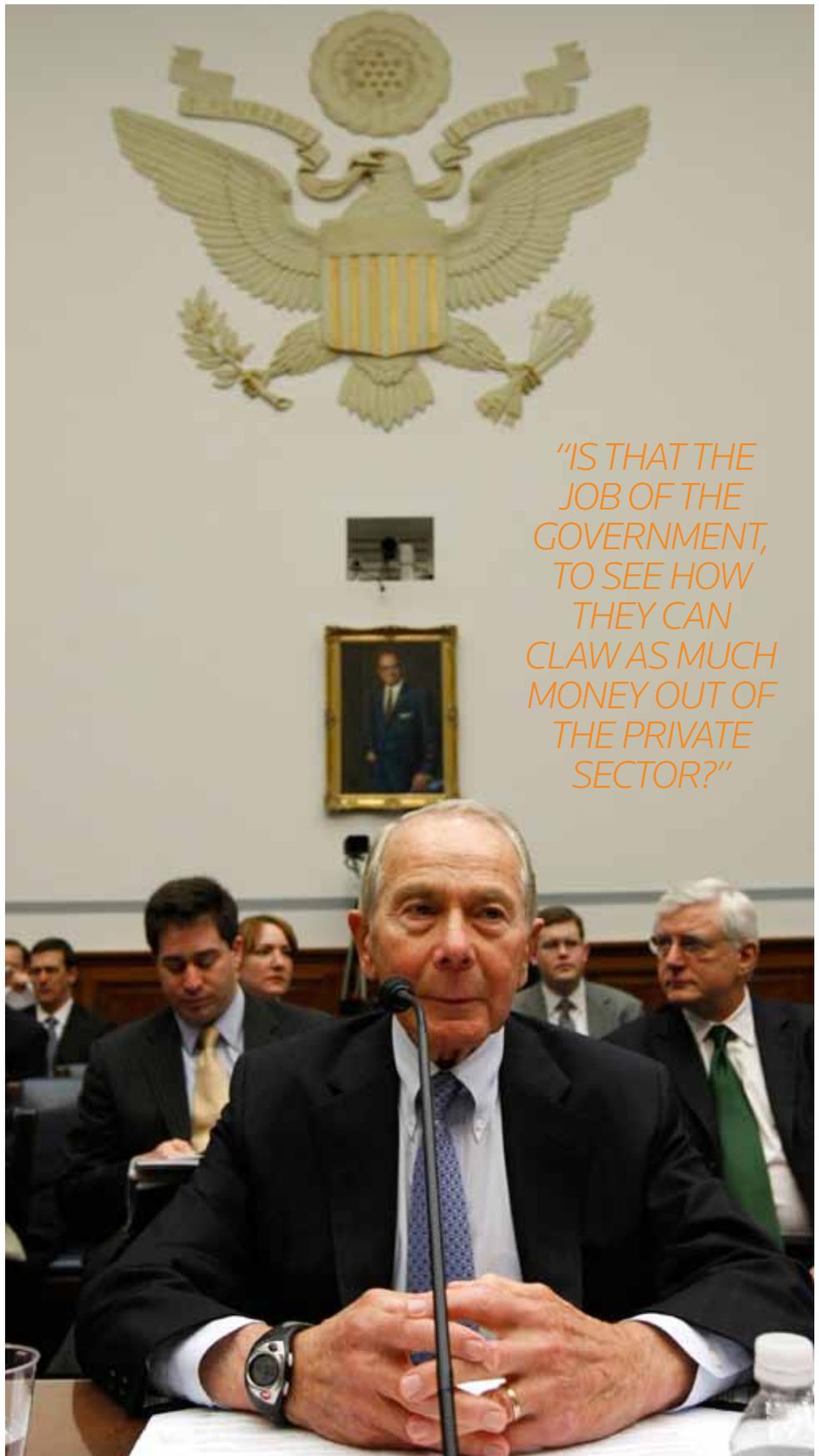
But not everyone is happy with the outcome. Maurice "Hank" Greenberg, the former CEO who built the AIG empire during a 38-year reign and then suffered huge losses in the bailout, told Reuters it was "outrageous" for the Treasury to make a big profit on the rescue. "Is that the job of the government, to see how they can claw as much money out of the private sector?" Greenberg said.

### SUCCESSION PLANNING

RIGHT NOW, Benmosche has other worries.

He has not revealed the kind of cancer he has, but the treatment includes aggressive chemotherapy. He plans to go to the board early next year with his prognosis.

Benmosche has already given the board a list of internal candidates that could potentially succeed him. The names are not



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**HINDSIGHT:** Former AIG CEO Maurice Greenberg says it is "outrageous" for the government to make money on the bailout. REUTERS/KEVIN LAMARQUE

known, but sources and experts say the list could include Hancock, Chartis CEO Kristian Moor, SunAmerica CEO Jay Wintrob and CFO Herzog. The board has not hired a search firm.

The board has its own list of qualities it wants in a candidate, which include finding someone who would stay in the job for several years. Benmosche is the fourth CEO since June 2008.

Chairman Miller, who has been designated the interim CEO in case Benmosche needs to leave, has been spending time diving deeper into the company, getting to know senior managers and attending some management meetings. As chairman, he is also getting along with Benmosche, sources said.

As of now, the board feels there are no grounds for it to start a search for a replacement CEO, as Benmosche remains as engaged in the company as ever, sources said.

Indeed, Benmosche has lost none of his scrappiness. On a recent winter morning, he was settling into his new offices housed at Chartis headquarters on Maiden Lane, a few blocks from AIG's old Pine Street headquarters in downtown Manhattan.

It was the first morning there after the move and the offices smelled of fresh carpet. Facilities staff worked to resolve issues like access cards that did not work. An executive could not come back out of the restroom area because the door wouldn't open from inside.

Benmosche said he was excited about his vineyards in Croatia, which include about one-and-a-half acres in a region that had vineyards many years ago but is not known for wine now. Zinfandel grapes come from Croatia, and by accident he said he found three of the five "living fathers of zinfandel plants in the world" on his land. He said his 2009 wine impressed tasters so much that he is working with University of California, Davis to see if they can bring back some cuttings from Croatia.

At one point during his hour-long conversation with Reuters, he took out his ID card. He plunked it on the coffee table in the conference room and proudly announced the insurer was switching back to cards that clearly said "AIG."

(Reporting by Paritosh Bansal, Kristina Cooke and Ben Berkowitz in New York, and David Lawder in Washington; Additional reporting by Aaron Pressman in Boston; Editing by Jim Impoco and Claudia Parsons)



**WHO'S NEXT?** Benmosche has given a list of internal CEO candidates to the board, which wants the next AIG chief to take the role for several years. **REUTERS/YURI GRIPAS**

# LONELY MOMENTS FOR U.S. TREASURY'S AIG FIX-IT MAN

BY DAVID LAWDER AND  
PARITOSH BANSAL  
WASHINGTON/NEW YORK, DEC 21

**J**IM MILLSTEIN IS no stranger to troubled companies. With a long career as a bankruptcy lawyer and former head of Lazard Ltd's restructuring practice, he's done his share of turnarounds.

But nothing prepared him for the firestorm that was American International Group when he arrived at the Treasury Department in the spring of 2009.

Controversy over \$165 million in retention bonuses paid to employees of AIG Financial Products -- the unit that brought down the company -- was raging. Edward Liddy, then AIG chief executive, had just been excoriated in a House of Representatives hearing and public sentiment was rapidly turning against bailouts.

"Suffice it to say, when I got to the building, everyone was shell-shocked," Millstein said of the Treasury. "And the company was completely shell-shocked."

The son of famous New York corporate governance lawyer Ira Millstein, he had been enticed to come to Treasury as chief restructuring officer to manage a wide range of bailout investments. But he quickly learned his sole focus would be AIG -- much to the relief of others working on the politically toxic project.

"It was like, 'Thanks for coming. It's your problem,'" he said.

A year and a half later, with the Treasury about to execute a complex stock conversion deal that will pave the way for an eventual exit of AIG -- potentially at a massive profit -- Millstein, 55, is ready to consider a new assignment in Washington. He wants to see the transaction completed first.

"I am still looking around. There are still some problems around town that need fixing," he said. While he would not be specific, he noted that among the problems "sitting there" were mortgage finance giants

Fannie Mae and Freddie Mac.

Starting in the new year, the Treasury will embark on a massive effort to restructure Fannie and Freddie, which were seized by the government just two months before the AIG bailout in July 2008. They dominate the U.S. mortgage market with their guarantees, so any overhaul would entail finding a new business model for securitizing mortgages and providing affordable loans to the housing market.

## POLITICAL PARIAH

MILLSTEIN SAID THE early days of the AIG workout had some "lonely moments" for him and his deputy, Thomas Casarella, with whom he had worked at Lazard. Unlike the bailout of General Motors Co, which had political support from the White House and throughout Congress, AIG was a pariah that seemed to bring negative headlines to the Obama administration at every turn.

The two worked largely on their own at the Treasury, in close contact with AIG management and the team at the Federal Reserve Bank of New York.

The first task was to survey the wreckage, sifting through the opaque web of intra-company guarantees that contributed to the insurer's collapse.

This was a "series of onion layers," each one revealing more disturbing and confusing information, said Casarella, 32. "It wasn't just figuring out what one thing was. It was figuring out what all of these things were."

Worse, no one knew where the bottom was. AIG was still burning through cash at an alarming rate and it was not clear whether the \$182.3 billion bailout would be enough to save it.

They began contemplating how they could break it up and sell it off in bankruptcy court.

Fortunately, the stock market rallied in the summer of 2009, providing some breathing room. They began to size up asset valuations and the core option soon become clear -- sell off the foreign insurance units and other non-

core assets to repay the Fed and retain Chartis and SunAmerica as the core of the company.

Millstein spoke almost daily with AIG Chief Executive Robert Benmosche on options to accelerate the repayment to the Fed and allow the company to regain an investment-grade credit rating. With 28 years of sparring in and around bankruptcy proceedings, he found ways to settle disputes between and within the three major partners -- AIG, Fed and Treasury.

"Jim speaks the language, and he doesn't let anyone get away with anything. He often mediated between folks," said Sarah Dahlgren, who headed the New York Fed's AIG team.

Another person involved in the turnaround effort said Millstein was able to "leaven tense moments with a sharp sense of humor."

Millstein all the while had to deal with an unprecedented level of scrutiny from bailout oversight bodies that are still questioning the handling of the AIG bailout and the wisdom of payments to counterparty banks.

In May, the Congressional Oversight Panel seemed shocked at his testimony predicting that U.S. taxpayers could wind up profiting from AIG. It issued a report just weeks later saying taxpayers were "at risk for severe losses" on the bailout and it was unclear whether they would ever be repaid.

Based on the exit plan and a stock price that shows a paper valuation of some \$90 billion for the government stake, that view is changing.

"The AIG story has improved greatly. Despite earlier criticisms, Treasury deserves credit," Congressional Oversight Panel member Richard Neiman, who is the New York state banking superintendent, said in a statement. "Jim has brought a strong set of skills that has well served the taxpayer and public."

(Reporting by David Lawder in Washington, Paritosh Bansal in York and Kristina Cooke in New York)

COVER PHOTO: Former AIG CEO Edward Liddy faces protesters on Capitol Hill in March 2009. The anger over AIG's \$182.3 billion bailout was palpable across the United States.

REUTERS/JASON REED

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