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Ben Bernanke
Chairman
Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Bernanke,

I write with concern about two announced deals that are lauded by AIG CEO Robert Benmosche as AIG's plan to 'pay back the taxpayer'. In reading through the deal, it looks to me like the Federal Reserve is simply engaged in yet another disguised bailout of AIG. It's not surprising that the New York Fed continues to shovel money at AIG using its balance sheet, since this seems to be official policy, but this time, the bailout also involves cheating the IRS.

According to AIG's November 6, 2009 10Q and the announcement from AIG, the deal works as follows.

- AIG will owe $25 billion less to the Federal Reserve Bank of New York, in return for which the FRBNY gets preferred shares in two AIG subsidiaries.

- AIG gets to appoint the entire board of managers for both subsidiaries 'owned' by the New York Fed.

- The New York Fed loses its status as a creditor in the event of a bankruptcy.

- AIG will take a prepaid charge to earnings of $5 billion in return for giving up part of the credit line from the New York Fed, allowing it to escape tax liabilities.

- These two subsidiaries are placed in special purpose vehicles (SPVs), and those SPVs will still be on AIG's consolidated financial statement even after these subsidiaries are sold to the New York Fed.

- AIG gets to keep between 95-99% of the upside of anything beyond repayment of the preferred share amount.

- The valuation of these two subsidiaries is at the sole discretion of the Federal Reserve.

This relationship is not significantly different from just making the subsidiaries collateral for the existing loan from the New York Fed, with four exceptions. One, the FRBNY's rights are downgraded in this deal from creditors to preferred shareholders. Two, AIG gets to claim "repayment" and take a tax loss to reduce the company's income taxes. Three, the FRBNY credit facilities are already collateralized. Four, the New York Fed owns nearly 80% of AIG, putting it on all sides of the deal.

My questions are as follows.

1) Considering that these subsidiaries haven't actually been sold, how did you arrive at the valuation of these subsidiaries for the purposes of this deal?

2) Did you solicit bids for the third party group or groups that valued these subsidiaries?

3) Did AIG attempt to sell these subsidiaries in the open market? If not, why not? If so, what were the results of these attempts?

4) As the New York Fed owns most of AIG, this deal could be considered a faked sale to generate a capital loss for the purposes of injecting Treasury funds into AIG without the consent of Congress. Please explain the legality of the arrangement.

Thank you for your time and attention to this matter.

Sincerely,

Alan Grayson

Alan Grayson
Member of Congress

Cc: Douglas H. Shulman, Commissioner of Internal Revenue