premiums they paid gave them the claim to the billions in worth of outstanding CDOs". (Wang, how are collateralized debt obligations and credit default swaps structured? n.d.). Hence, AIG was almost in the state of bankruptcy. Since, it was considered too big to fail, the Fed and the Treasury Department of US stepped in and offered almost 150 billion loan in exchange of 80% of company's equity. (Gethard, Falling Giant- A case study of AIG,2014).

AIG IN FINANCIAL CRISIS

Apart from the CDOs and CDs fraud, there were also internal security lending problems which further added about 69 billion of outstanding loans in addition. (Alrabba, Fair value and Financial crisis 2008, 2015)[6]. AIG suffered a major decline in stock price and company credit rating. AIG never imagined that they had to such huge collaterals. The counterpart banks- Goldman Sach, JPMorgan would come for money as per contract and even after paying these collaterals, they had to pay more billion dollars to them. (Das, what happened to AIG? Frontline)[7]" In February 2008, AIG disclosed that Pricewaterhouse had found a "material weakness" in its accounting controls. Late that month, AIG announced a $5.3 billion fourth-quarter loss, its largest ever, driven largely by write-downs on the swaps. In May, AIG announced another record quarterly loss, of $7.8 billion. By August, AIG had increased its estimates for what it might ultimately lose on the swaps in the case of defaults to as high as $8.5 billion" (Mollencamp, NG, Pleven &Smith, Behind AIG's Fall, Risk Models Failed to Pass Real-World Test, Wall Street Journal, 2008)[8]. Mr. Cassano, the unit head of CDOs retired and Mr. Gorton, on whose models AIG blindly relied on left his job even before the company collapsed in September 2008, if the government had not plunged in for bailout.

AIG AFTER FINANCIAL CRISIS

The Federal reserve offered a two-year loan to AIG to prevent AIG from bankruptcy and reduce the stress on global economy." The Treasury Department purchased $40 billion in AIG preferred shares from its Capital Repurchase Plan. The Fed purchased $52.5 billion in mortgage-backed securities." Edward Liddy was made the new CEO by Fed stalled at a salary of $1 an year.". (Amadeo, 2008-The details of the bail out, AIG Bailout: Cost, Timeline, Bonuses, Causes, Effects,2016)[9]. As a result of AIG's loss, Dow Jones

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[6] http://euabr.com/ijcrbapr15/1-46apr15.pdf
[7] http://www.pbs.org/wgbh/pages/frontline/oral-history/financial-crisis/tags/aig/
[8] http://www.wsj.com/articles/SB122538449722784635.

[9] http://useconomy.about.com/od/criticalssues/tp/AIG_Bailout.htm.