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NOVEMBER 29, 2011

TO: BOARD OF DIRECTORS

THROUGH: ARTHUR T. LEAHY
CHIEF EXECUTIVE OFFICER

FROM: TERRY MATSUMOTO
CHIEF FINANCIAL SERVICES OFFICER AND TREASURER

SUBJECT: DEFEASED LEASES

## ISSUE

We are informing the Board of our intent to enter into two collateral agreements with Comerica Leasing Corporation ("Comerica") to cure defaults under those leases resulting from the 2008 credit ratings downgrade of American International Group (AIG).

## DISCUSSION

The collateral agreements provide a "no cost" solution to cure the default. The funds put into escrow, including any interest earnings, will be returned to us at the successful completion of the lease terms. There will only be the legal fees necessary to execute the documents.

The Defeased Lease Policy adopted by the Board in October 2008 delegates authority to the CEO to take all actions necessary to administer the defeased leases, including to amend terms and pricing and to terminate the leases whenever such actions are judged to be in the best interest of the MTA and consistent with the objectives of the initial transaction. We expect to execute two collateral agreements over the next several days for our defeased leases with Comerica.

## BACKGROUND

We have been in a technical default situation under our two defeased lease transactions with Comerica as a result of the credit rating downgrade of AIG in October 2008. We have reached an agreement with Comerica for a restructuring that will remedy the defaults and allow the transactions to remain in place for the balance of their terms. The restructuring proposal is essentially "self insurance" in the form of a funded escrow account that will serve as collateral to backstop the AIG letter of credit. In exchange for posting approximately $30 million of collateral, Comerica will waive the current and future credit provisions that led to the technical default noted above. The collateral

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in about 13 years. The $30 million deposit into the escrow account has no budget impact because the assets remain our property as long as we remain in compliance with the Comerica lease documents. We remain confident that AIG will be able to meet its requirements due in part to the substantial Federal ownership of AIG as a result of the Federal Reserve's bailout of AIG in 2008.

We executed 10 defeased lease transactions through 2003 and received $65 million in cash benefit for our participation. Seven of the leases were in default following the ratings downgrade of AIG. One defaulted lease was permanently resolved when we terminated it this past May and another defaulted lease was resolved in July 2011 by entering into a collateral agreement structured in the same way as the Comerica agreements. The currently proposed collateral agreements will resolve two defaults and leave three unresolved. We continue to reach out to the three remaining investors.

**NEXT STEPS**

Execute collateral agreement and post collateral.

If you have any questions or comments, please contact Terry Matsumoto, (213) 922-2473.