

Jan. 27, 2010, 5:00 p.m. EST

Geithner, Paulson defend \$182 billion AIG bailout

Lawmakers grill Geithner and Paulson for failing to obtain taxpayer concessions

By **Ronald D. Orol**, MarketWatch

WASHINGTON (MarketWatch) -- Facing sharp criticism on Capitol Hill, Treasury Secretary Geithner and his predecessor, Henry Paulson, on Wednesday defended their decision to complete a \$182 billion bailout of American International Group Inc., arguing that it was necessary to protect the financial system from implosion.

"The steps the government took to rescue AIG were motivated solely by what we believed to be in the best interests of the American people," said Geithner, who was the president of the New York Federal Reserve when AIG (NYSE:AIG) was rescued.

"Thousands of more factories would have closed their doors; the value of American savings would have fallen even more. It would have brought about utter collapse," said Geithner.

Paulson, who was Treasury Secretary at the time, said an AIG failure would have been devastating to the financial system and easily have driven unemployment up to 25%, well beyond its current 10%.

Geithner said taxpayers could recover the cost of the AIG bailout if lawmakers support an Obama administration proposal that would impose a \$90 billion fee over ten years on financial institutions.

Lawmakers argue that Geithner and Paulson failed to obtain concessions for taxpayers and point to emails suggesting the New York Fed sought improperly to conceal that it had repaid AIG's counterparties in full with \$62 billion in taxpayer funds.

The Federal Reserve's use of its extraordinary powers to assist AIG has angered many members of Congress of both political parties. Lately, lawmakers have expanded their criticism of the Obama administration's bailout efforts, which they contend resulted in expanded benefits to Wall Street at the expense of Main Street. Critics argue that the government's actions at AIG were in fact a 'back-door bailout' at the expense of U.S. taxpayers.

AM Report: Obama Faces Skeptics

The News Hub discuss the multiple goals Obama's first state of the union needs to reach. Plus, Jeffrey Trachtenberg reports why publishers are intrigued by the Apple Tablet.

"The government gave Goldman Sachs more than it had any right to expect, but at the same time no financial relief was given to millions of Americans facing a foreclosure crisis," said Rep. Dennis Kucinich, D-Ohio.

Rep. Ed Towns, D-N.Y., chairman of the House Oversight and Government Reform committee, said the bailout "creates an air of suspicion and distrust among the American people." He expressed concerns about the decision by the New York Fed to try to keep the names of derivative counterparties of AIG receiving taxpayer bailouts private. Under pressure from Congress, the names of derivative counterparties were eventually disclosed.

"The New York Fed argued that disclosing the names of the counterparties would somehow injure AIG," Towns said. "In fact, when the information was finally released under pressure from Congress, nothing happened...But it did have an effect on the credibility of the Federal Reserve and it called into question the Fed's penchant for

secrecy."

Role of the Fed questioned

GOP lawmakers on the committee also focused their attention on emails they have suggesting that the New York Fed sought to conceal it had repaid AIG's counterparties in full with \$62 billion in taxpayer funds.

'The steps the government took to rescue AIG were motivated solely by what we believed to be in the best interests of the American people.'

Treasury Secretary Tim Geithner

"It stretches credulity for us to believe that you had no role in this and didn't know anything about it when your attorneys were sending emails around everywhere," said Rep. Dan Burton, D-Indiana.

Geithner and Paulson both said they were not involved in the disclosure of the AIG payments.

"I had no role in making decisions regarding what to disclose about the specific financial terms...of payments to counterparties," Geithner said. However, he acknowledged that he thinks every day about things the government could have done differently in the short time it had to respond to AIG's impending failure.

Paulson said he wasn't involved in any of the decisions about AIG's public disclosure of AIG payments, adding that it was predominantly the responsibility

of the Fed and New York Fed.

The Fed's Bernanke also said in a letter Wednesday that he was not "directly" involved in negotiations with the AIG counterparties, adding that the negotiations were handled by the NY Fed. Bernanke said he supported the Fed's decision to authorize the bailout.

AIG received \$62.1 billion in federal funds that it used to fully pay off counterparties at financial institutions in the United States and Europe, including Goldman Sachs Group (NYSE:GS) , Bank of America Corp. (NYSE:BAC) , J.P. Morgan Chase & Co. (NYSE:JPM) and Deutsche Bank AG (NYSE:DB) . AIG is in the process of selling off units to partially pay off the government investment.

Democrats on the committee took issue with Paulson and Geithner for failing to get on the phone with the CEOs of top U.S. banks -- many of the same ones that were pressed to take billions in taxpayer funds as part of the \$700 billion Troubled Asset Relief Program -- and ask them to take a discount on the payments they received as part of the AIG bailout.

"The commitment to Goldman Sachs trumped your commitment to the American people," said Rep. Stephen Lynch, D-Mass. "We had the banks in a position where we could have exercised a lot of leverage against them and we never used that leverage."

Meanwhile, Rep. Darrell Issa, R-Calif., the committee's ranking member, pressed Geithner on his roll in the bailout.

"Where was Secretary Geithner during the months and months that backdoor bailouts were being questioned in the media? Did he ever wonder why his decision to pay AIG's counterparties was kept secret for so long?" Issa said.

Issa released a letter Tuesday indicating that Bernanke's staff did not agree with a decision by him to bailout AIG. [Read about Issa's letter.](#)

"This morning Sen. Jim Bunning, a member of the Senate Banking Committee, who is familiar with documents in the possession of the Federal Reserve, referred to an e-mail sent by Bernanke to his staff "after his staff

recommended that the Federal Reserve not touch AIG. According to Bunning, Bernanke's staff "did not agree with him."

A report produced by Issa and his staff released Tuesday, argues that the New York Fed covered up details about its decision to use taxpayer funds to pay AIG's counterparties at par. In the report, Issa released an email made on Nov. 11, 2008, by New York Fed assistant vice president Alejandro Latorre to other Fed officials that said, "As a matter of course, we do not want to disclose that the concession is at par unless absolutely necessary." [Read the Issa report](#)

The U.S. government owns about 80% of AIG as a result of its injection of capital to save the company from collapse in 2008.

Intraday Data provided by Thomson Reuters and subject to terms of use. Historical and current end-of-day data provided by Thomson Reuters. Intraday data delayed per exchange requirements. Dow Jones Indexes (SM) from Dow Jones & Company, Inc. All quotes are in local exchange time. Real time last sale data provided by NASDAQ. More information on NASDAQ traded symbols and their current financial status. Intraday data delayed 15 minutes for Nasdaq, and 20 minutes for other exchanges. Dow Jones Indexes(SM) from Dow Jones & Company, Inc. SEHK intraday data is provided by Comstock and is at least 60-minutes delayed. All quotes are in local exchange time.