

FINANCIAL SERVICES AIG HEARING LIVEBLOG, LIDDY TESTIMONY PART TWO

For earlier liveblog posts:

- Committee Members Blowhard Statements
- Panel 1: The Regulators
- Panel 2: Liddy, Part One

Royce: Any discussion with members of the Senate to guarantee payment of bonuses?

Liddy: We have a strict prohibition against lobbying.

Royce: Could you check?

Royce: Discussions with members of the Administration?

Liddy: Geithner. First discussion would have been about a week ago. One on a Tuesday and one on a Friday. When I said administration, I did not include Federal Reserve.

Royce: Please send any talking points. The issue to us is that Senator Snowe was concerned about this provision. That measure applied these restrictions retroactively.

[Once again, Royce refuses to chase this down. Liddy has just said he was talking to the Fed, but Royce still wants to be able to claim that Dodd was the one responsible, so he backs off any questioning about the Fed.]

Scott: We are in effect at war. We need to hurry up and get this bonus issue off the table.

Posey: We wouldn't care about the bonuses if it weren't for the bailout money. A big bonus for these people is that they're not in jail, and that they still have jobs. I can't imagine that

the demand is that great for someone who can screw up an entire company. Have you seen any signs of what someone might normally consider criminal activity.

Liddy: Nothing has come to light that I am aware of. It really is easy to paint with one brush. There are people who worked on one piece called CDS. Another regulatory capital. Derivatives book. For the most part those are separate people. Those are the ones that brought our company to our knees. In the derivatives book those are the ones we're asking to please wind this down. Those are the ones that got the bonuses.

Posey: Is there an obligation to report unethical behavior? To whom?

Liddy: Absolutely.

Liddy: What we have at AIG is too much appetite for risk, too much appetite for business outside our core competence.

Posey: 73 people got bonuses that exceed 1 million, 11 are no longer with the company.

Maloney: Submit questions in writing. On bonuses, you mentioned a number of people said they'd give back bonuses. On the floor tomorrow will be a bonus that will tax the bonuses. How many said they'd give back the money. I requested for many months now for a list of the counterparties. Why were you fighting giving us this information when it belongs to the American taxpayer.

Liddy: I wasn't hiding anything. Fed has a policy not to release counterparties. It really wasn't on the part of AIG we were trying not to disclose.

Maloney: Federal Reserve wouldn't disclose? Are there any other disclosures you have attempted to make but have been blocked? Really, the Federal govt is not required to bail out AIG. Insurance guy said they should dissolve the company.

Liddy: That's exactly what we're doing. We're selling assets where people can afford to buy them.

Maloney: Was it a big mistake to tie a risky product to a great insurance company?

Liddy: Any time you see a business stray from its core business, watch out.

McCotter: My constituents think it is insane to stay in a job when they don't have one. They think it is insane to pay the people who screwed up to stay in the job. They say we'd really like the money back. The 50% is not enough for them. They would like full restitution. I would like to see Secty Geithner to repeal that \$30 billion but also premise it on the return of the bonuses. There is a very easy way to get the names off the list—it is to give back the bonuses. We talk about how losing these people would cause AIG to go under. That shows the very weakness of AIG and why we can't effectuate a soft landing. It'll also require a whole bunch more federal money. What you've done—not you specifically, but you the govt—is you mistake why no one has confidence in the economy. The reason we are having this discussion today is Americans believe we have seen institutional failures because of a failure to be good stewards of their money. Until that institutional failure is restored, there will be no restoration of confidence. If we continue on the path we're on for the next one to two years, how much more money?

[Note, I love when MI Congressmen kick banksters' asses, but there have to be a number of people asking why GM should get big chunks.]

Liddy: \$80 billion. We have good businesses to sell.

[Someone needs to go after Maiden Lane. We're on the hook for it, but Liddy wants to deny any responsibility for it.]

Moore: Timeline on bonuses. How you knew that this particular division was failing.

[What some smart Congress critter needs to point out is that these bonuses were put in place days after Cassano was fired.]

Moore: Was March an off-schedule time to give bonuses.

Liddy: they were retention arrangements. And process would have begun six months before then.

[That puts it right when the Price Waterhouse auditors were sniffing out the house of cards.]

Liddy: 2007 was not a good year.

Michelle Bachmann: When will FP wind down?

Liddy: Warren Buffet had a similar business, it took him 4 years, and he did it in a better environment. Some of these contracts go out fifty years.

Bachmann: What would your guestimate be?

Liddy: Four years. We're probably going to have to change the name. Where there may have been an approach to use one single name we're rebranding.

Bachmann: You have collateralization that is sufficient that the taxpayer will be made whole?

Liddy: Yes. I cannot control when the market gets better.

Bachmann: Is it possible to get a list of which members of Congress you spoke to and when.

[Shorter Bachmann: I'm cute and—since I'm wearing white, so very innocent, but I think I'm smart enough to find dirt on the Democrats.]

Bachmann: If we hadn't opened the credit window to Bear Stearns wouldn't that have made the AIGFP traders to not continue the risky businesses.

Liddy: Uh, no, because they had stopped those CDS two years beforehand.

Donnelly: How much have you lost on CDS?

Speier: The American people are at wits end, if you would do us a favor and communicate to Frank and Kanjorski in addition to communicating with Helicopter Ben, we'd appreciate it. Insurance is doing well, because insurance is regulated by the states.

[tries not to admit it]

Liddy: A national charter may be a flawed idea. Insurance products gotten so complicated may be surpassing state ability to keep up.

Speier: Time out, complexity is not something that is going to work well for any of us moving forward.

Liddy: there needs to be a systemic risk regulator. There's got to be something overarching.

[how about you just don't get so damn big?]

Speier: The 1.6 trillion is probably toughest CDS.

Liddy: Most of the CDS are gone. We walled off securities lending and CDS, what's left is traditional derivatives contract.

Speier: So what's left are derivative contracts. Are they going to be more difficult to unwind?

Liddy: Give and take to unwind these derivatives.

Speier: In 2008 any performance bonuses to the insurance silos.

Liddy: Yes. I don't have that number.

Speier: Right now AIG is owned by the taxpayers of the country. Until the money is returned nobody should be getting bonuses.

Wilson: My GM workers have had to break their contracts. How can we ask working families to break their contracts and yet support the contracts like AIG has done. I just don't think it's fair. It's my understanding that most Wall Street folks uses bonuses to make the money. Is

this really true, the way it works at AIG?

Liddy: Wall Street firm only by geography. We are an insurance company. We have an entirely different pay structure. We have higher base salaries, not that much in an annual bonus, the rest in performance of stock. AIGFP much more similar to what you described.

Wilson: Companies trying to go around this to get around bonuses. Have you heard anything of that nature. TARP wage accountability act, to prohibit companies to go around. Hoping it'll make salary increases along 3.9%, if it's good enough for them, good enough for the companies that caused the problem.

Grayson: I took a look at the 10k you filed a few weeks ago. We compiled some pages for you. page 153. Somehow you ended up with shareholder equity positive. Excess of proceeds over par value recorded—recorded in increase in shareholder equity. Can you explain who provided that stock. So you recorded the TARP money equiavlent as profit.

Liddy: As equity.

Grayson: You get without any legal liability.

Liddy: The dividend payment. And expectation it will be repaid.

Grayson. Another line that says \$23 billion, you would be in the red without this. stock net yet issued.

Liddy: The 79% ownership the federal govt.

Grayson: Before you even gave taht stock you counted that as shareholder equity. Page 179. Foreign currency losses. See the entry that says yield curve \$500,000, which is \$500 billion. If the yield curve increased by 100 basis points, then you're telling us AIG would be on the hook for half a trillion. Is that correct? Look above yield curve, where it says dollars in millions. According to your own 10k, if long term rates go up you'd be on the hook for a half a trillion.

Liddy: Off-setting liability.

Grayson: That's a lot of liability for the taxpayers.

Liddy: Why we want to wind down the in an orderly way.

Grayson: An earthquake in SF, that'll cost AIG 8.6 billion. But if interest rates go up 1%, that'd cost 500 billion. What exactly was AIG insuring? The entire US economy?

Liddy; That's been my point, we need to wind down that internal hedge fund so it doesn't cause the taxpayers even more distress.

Peters: Most of your losses from FP unit. How much money was lost by FP unit?

Liddy: We have a schedule we submitted, \$52 billion has gone out for FP.

Peters: How much was lost?

Liddy: Range of \$30 billion.

Peters: had the federal govt not put in money it would have been considerably larger? That required \$170 billion from taxpayers?

Liddy: 78 billion.

Peters: 300+ in this unit.

Liddy At its high was 470. Very few involved in CDS. Then you have 1.6 trillion derivative.

Peters: my point is you had a small unit. It's really a small number of people that brought your company to the brink. How can a relatively small number of people bring the US economy to the brink, 100, 200.

Liddy: Probably 20-25.

Peters: 20 people brought our economy to the brink.

Liddy: We need a much more hefty systemic risk regulator.

Peters: Where was your company's risk

management?

Liddy: Risk management practices in place. Not allowed to go into FP business. You need to get those who ran AIG before my arrival and ask that question.

Foster: What are the mistakes that would get made if they were replaced by equally competent people brought off the street. Each one a specific contract. There are 29,000 contracts, you have to know what to do wrt currency or oil price movements. What is the range that you'd realize between the team you have and one you'd buy off the street.

Liddy: How quickly could someone get up to speed on those contracts.

Foster: Back up person. What fraction of the way along?

Liddy: 40-50%. People don't want to work at AIG.

Foster: Does that person end up costing half as much?

Liddy: Contract with a firm that has to provide the backup. I believe it's comparable to what we're paying, I don't have that.

Foster: You described the legal opinions you got. You'd end up losing the court cases, doubling and tripling the bonuses. That is your sworn testimony.

Liddy: First issue was the risk issue, can we effectively manage this book of business down?

Foster: Is there a rough symmetry between European banks bailed out and US bailed out?

Elijah Cummings: Media focused on retention program. For months you and I have been going back and forth about the \$1 billion retention program that covers thousands in AIG. However in your letter to me on December, you approved retention payments for 1000 employees. How many retention payments of any kind have you approved?

Liddy: 4500 people that work in our healthy insurance companies that we have approved retention bonuses for that can go out two years in length.

Cummings: You have said you expanded it. Would that be included in the number you just gave me. You also noted that business units have adopted their own retention plans. So there are other retention plans.

Liddy: Some cases reduced payments in some case stretched them out.

Cummings: Letter to Geithner. AIG hereby commits to use best efforts to reduce expected retention payments by at least 30%. We've got some folk in place for 2009 performance.

Liddy: I think that whole issue will be moot. I think those issues will return those bonuses and it will be accompanied by their resignation.

Cummings: These people are very central people. I would hope they would stick around and help us get through this. I would hope they would do that. You wrote to Geithner that Secty had asked AIG to rethink bonuses. How much in bonuses have you paid in 2008?

Liddy: Range of 9 million.

Kaptur: Spirit isn't being communicated well to the American people. For those getting the bonuses, I thought you were going to tell us what was going to happen by the beginning of April. The WSJ discloses today that AIG has put funds in escrow for Deutschebank. Which hedge funds could receive funds and how much each could get?

Liddy: We'd have to ask DB. They would have had other counterparties that only they are privy to?

Kaptur: Could you provide it to the record.

Liddy: They're not our customers. What you're asking is what did DB do, what are the relationships that DB had. I don't have access

to that.

Kaptur: Face value of derivatives, 1.6 trillion, what is the trading value?

Liddy: I just don't know.

Kaptur: What is the possible remaining taxpayer exposure?

Liddy: It'll probably cost us several billion to do that.

Kaptur: If the contracts are successfully terminated, would the counterparties have to return the collateral?

Liddy: Derivatives might be a whole different set of counterparties.

Kaptur: What about the derivatives?

Liddy: Derivatives traded on active basis.

Kaptur: What percent is owned by USG? How do we get money back out of AIG?

Grayson: What are the names of the 20-25 people.

Liddy: I don't have their names at my disposal.

Grayson: Names please? I'm asking for the names of the people that caused your company to lose 100 billion dollars.

Liddy: I don't know them.

Grayson: Not a single one.

Liddy: Joseph Cassano. I do not know their names. There are great people in AIGFP right now that at least know the names of those individuals. That could be a list that individuals that want to do damage to them could do that. If that's the information you want. I will consult with our General Counsel.

Grayson: My time is up.