

FINANCIAL SERVICES

AIG HEARING PANEL 2

(LIDDY)

The hearing can be view on the committee stream or CSPAN3.

The witnesses are:

Panel two

- Mr. Edward M. Liddy,
Chairman and Chief Executive
Officer, American
International Group

Kanjorski: Pink ladies respond properly or please leave the room. Signs DOWN!!!

Kanjorski administers oath.

Kanjorski: We've had occasion to visit personally 2-3 months ago and **4-6 weeks ago a telephone conversation that wasn't as great.** Mr. Liddy is not a person that is being paid for the CEO position he occupies at AIG, impressed into federal service and he responded to their call. He is former CEO of one of our largest insurance companies. I wanted to make that clear bc I'm sure that you and your family have had a lot of abuse in the last few days. I think it only fair that we set record straight. When we discovered potential bonus payments, I urged you to suppress payment. My understanding that AIG people and my staff would cooperate and transfer docs to lend assistance. Specifically, we wanted to see whether we could vitiate this contract. As of Saturday last we have received no communication regard papers. Only thing we received was a letter indicating that payment was made.

[Note, this whole exchange suggests--rather implausibly--that Kanjorski knew about the bonuses before Geithner did.]

Kanjorski: Sometimes insurance companies delay payment until they're sued. This appears to be a rushed payment. One of the last payments would have been a denial of the right to pay on the contract. Not a bad remedy. If you had taken that position, these bonus recipients would have been in the same position as the US, worst that could have happened would have been penalty. I thought you were missing gravity of this situation.

Liddy: Why pay these people at all. Trying desperately to prevent uncontrolled collapse of that business. Only way to avoid systemic shock to the economy that the US government help was meant to prevent. We concluded that the risk to the company and the financial system and the economy was too high and that we would have happen what the involvement in AIG was supposed to prevent. I've asked employees of AIGFP to step up and do the right thing, those who received retention in excess of \$150,000 to give up half. Some have already given up 100% of those payments. Obviously we are meeting at a high point of public anger. As a businessman I've seen the good side of capitalism. I've now seen its bad side. Mistakes were made on a scale few could have imagined possible. On behalf of my colleagues I want to thank the Fed and Treasury and taxpayer. Most importantly to protect taxpayers.

[Wait. Mr insurance in the last panel said that insurance assets are untouchable. Were they not kept untouchable???? He needs to be asked whether grandma's life insurance is still safe, bc we're getting different messages here.]

Kanjorski: You've just announced that some employees that received those bonuses. Why couldn't that have been negotiated for the last two months. Why not make that available to this committee, Fed, Treas?

Liddy: Working on it, made it publicly available in 10Ks and 8Qs. Decision I made as much risk assessment as blindly following legal advice. Still \$1.6 trillion in that portfolio. There's

risk that that could blow up. It could cause irreparable damage to what we've tried to do here.

Kanjorski: If those assets blow up, total destruction or come back for additional funds.

Liddy: Yes, in cooperation with Fed, we could preserve that unit and continue to wind down. \$165 million is a very large number. In context of \$1.6 trillion it was a good number.

Kanjorski: Bernanke assented to this?

Liddy: They have the ability to weigh in.

Kanjorski: Why wasn't this committee made aware? Why did you make the payments on a Saturday night?

Liddy: No intent to deceive. They were due. With the Fed.

Kanjorski: you did not discuss this with your staff.

Liddy: We wanted to do what was right with the contracts. We've been talkign with teh Fed literally for 3 months.

Kanjorski: And with the secty Treas?

Liddy: No, Fed decides how much we talk to Treas. We've asked if they want a separate communication channel.

Kanjorski: You know TARP is going to run out?

[Can we fire Helicopter Ben here, while we're firing Geithner?]

Liddy: Another element. If something happens to AIG, and puts at risk all the money that has been put into it. Can we stabilize the AIGFP and run it down.

Kanjorski: Are we to assume you're going to continue this process of talking only to the Fed and not informing Congress and the American people, we assumed that the Fed was communicating with others.

Garrett: I would presume that even if Treas not in those meetings that the info was flowing back. WH trying to get Treas to clawback. Is WH second-guessing Treas must have known through a period of time, both through Fed, and Treas from Wall Street.

Liddy: I talked to [Geithner] last week, and he indicated that the first he had heard about this was the week earlier.

Garrett: Is there an exit strategy?

Liddy: There is.

Garrett: is it really going to engage itself.

Liddy: Sell back whatever assets we can. Ring fence it, and give it to Fed as satisfaction of debt. There is an exit strategy. But very market dependent.

Garrett: Testimony on earlier, adds up to \$400 billion. Why is that number different?

Liddy: Credit default, but also oil contracts, derivatives. Measure how many dollars of notional exposure \$2.7 to 1.6. \$80 billion, now \$10 billion in CDS.

Kanjorski: The pink ladies, the signs are going to be removed, or you're going to be removed. Officers: take the signs. If I see any more signs on camera, you're going to be physically removed from this room.

Frank: A good thing no one was wearing a t-shirt with a slogan. Repeat what Geithner and others has said. Liddy not responsible for bonuses. I disagree with how he's handled it, but there ought to be a clear distinction between those who created it and Liddy. I have said several times to make changes, to make Federal govt to assert stronger ownership rights, if we sued, as an owner, we'd have a stronger stance than as a regulator. I also have said there ought to be people removed. I am very critical of the people who put the contracts in place. Pool of money but losses capped at \$65 million. Is it possible that the company could have lost money but still

bonus pool.

Liddy: No performance bonuses. We said to people you have a job, that job is going to go away, if you stay to wind down.

Frank: No performance bonuses. Did those who left get retention bonuses?

Liddy: Those who wound down their part of the business.

Frank: What would be the period of time after they left they got retention bonuses.

Liddy: Pay the debt down first so the rating agencies. Fed has invested two tranches. \$40 billion TARP, and \$38 billion through the Fed. That's all. First Fed debt, then TARP dollars.

Frank: Submit in writing whether we should be dealing with orderly resolution procedure. Some are giving bonuses back. Send us names who have not given bonuses back.

Liddy: If I can be assured it will remain confidential.

Frank: Then we'll subpoena them.

Liddy: Threats directed at my executives. Piano wire around their neck.

Frank: I will consult with the law enforcement people. But I do want to keep that request on the table. If we give into these threats, a lot of information will never be made public.

Bachus: M2M

Liddy: M2M is a good concept run amuck. When liquidity completely dries up, you have to keep marking it down.

Liddy \$40 billion TARP, \$38 billion Fed. Fed invested in our distressed assets. 40-50-60 cents on the dollar, acquire assets. They will do very well on that investment.

[Shorter Liddy: I still believe in the shitpile!!]

Bachus: In the market they're trading at 90 cents on the dollar.

Liddy: [Nice try, but not really.] They're trading at 30 to 70 cents on the dollar.

Ackerman: You have no upside. You have no right to be subjected to threats. \$165 million is less than 1/2 of one percent. Not worth the angst this country is going through. Cut your losses.

Liddy: The legal side. What we can't do is have an event that causes AIGFP to get into cost default. It will be bankruptcy.

[Ackerman, don't interrupt this—we need to understand this.]

Liddy: My fear is the damage is done that they'll return it with their resignation.

Liddy: I'm talking about the \$1.6 trillion. Credit default swap needs more visibility.

Ackerman: Transparency.

Castle: Interested in events that occurred when you came to AIG, Fed govt role.

Liddy: Fed and Treas, they've primarily encouraged us to deal with one overseer, primarily with Fed.

Castle: Fed has been at board meetings.

Liddy: goes to participation that lead up to board meetings.

Castle: You assumed they had shared that info with Treas and Congress.

Liddy: I had a conversation with Geithner and he indicated he had only become aware a week earlier. We try to keep Congress informed.

Castle: If Geithner was head of NYFR, would he not have know from them?

[ding ding ding ding]

Castle: Did he participate in any of the meetings while still at Fed?

Liddy: Yes, but once he was nominated he recused himself.

Castle: Fed could say yeah or nay. Did they have the right? Or did you just assume they could have said something.

Castle: They did not say nay on the part of the bonuses.

Liddy: There was incredible angst on the part of everyone, including the Fed. The conclusion was that the risk was too great.

Castle: Can Liddy submit a list of where the Fed was and who was there?

Liddy: We don't have it available to us now. Yes.

Ackerman: Quick clarification. You said cooperate with Cuomo in NY. He has subpoenaed those names. Will you cooperate with subpoena?

Liddy: I'll talk to my GC about it and we'll do the right thing.

Ackerman: Does that include with complying with legal requests from AG. It's yes or no.

Liddy: If someone can just assure me that it's not going to be a list of names and dollars and pictures. It would be our intent to comply with the subpoena.

Sherman: We learned that savings bank and insurance will be just fine if the parent went into receivership. They told us they had experts in CDS that were making between \$100,000 and \$150,000 a year with no bonuses. And none of them have the experience in bringing down an entire company. I don't want to go home and say we may have some chance of getting some of the money back. If we pass the tax bill, we're sure to get all the compensation back. If the Fed knew and didn't tell us, then it calls into question their commitment to democracy. Can I count on you to provide every doc you give the Fed.

Liddy: I'd like the opportunity to talk to my GC

about that.

Sherman: You're going to have to keep us informed. I'd like a chart focusing on future bonuses and high compensation. How many are getting over half a million, million, or two million. Can you furnish that for the record. Are employees able to consult with criminal defense attorneys.

Liddy: Only if there's an assertion of criminal wrong-doing.

Sherman: You have an obligation to tell your shareholders. We'd save the \$30 billion, but we'd invalidate these bonus contracts. You seem to have informed one or two people about that. The other issues is the contracts seem to have been entered into in contemplation of huge losses. Both these issues raise issues of criminal liability.

Manzullo: You didn't consider changing the contracts.

Liddy: I started from different position, from risk.

Manzullo: [Reviews amounts]

Liddy: Top people in AIGFP. Top people in AIG are receiving no bonus.

Manzullo: When Kashkari testified, he said the top people who were responsible had been removed.

Liddy: I think he meant AIG.

Manzullo: I was questioning \$4 million bonus. His statement that the key people who made it go sour had been removed. Those people getting bonuses were people in charge when it collapsed.

Liddy: We're not paying Cassano and other architects.

Manzullo: An executor more than \$4.6 million in bonus?

Liddy: Very talented people who are unwinding

that \$1.6 trillion.

[There's a big problem here—Liddy says the CDS people are gone, but he's saying that the other derivatives are STILL too complex to unwind by themselves. Either this stuff is still toxic and you pay them \$1 million and therefore the same wacky shit that brought this down, or it's not that complex and they can leave.]

Manzullo: Your testimony is inconsistent with Kashkari. He said the people who are responsible are gone.

Liddy: Some people left once they unwound their business.

Capuano: Did you expect these bonuses to piss off Americans. Do you believe honestly in your heart that these are the only people that are capable of doing this job?

Liddy: No I don't.

Capuano: Do you believe there's a plan?

Liddy: I do.

Capuano: You didnt' consider replacing these people bc the contracts are too complex. Did you consider going to court. By the time those lawsuits were settled, you'd be bankrupt or private and profitable.

Liddy: Had we done that more than likely those people would have walked out the door tomorrow. To the extent something happens in one of those trades, we get into a spiral.

Capuano: Do you have any plans to fire them?

Capuano: You could have fired these people and replaced them with people who are unemployed on Wall Street. In your former life you're with Allstate. That's a contract with Allstate. Did you honor every single one of those contracts. If you had a difference of opinion on those issues. Let the Courts decide.

Liddy: Each has a book of business 31-33 books of business. We've brought in other people as

backstops.

Liddy: There are a number of people at AIG working hard to pay back the American taxpayer. You'd be proud of them.

Capuano: Not right now I'm not.

Biggert: Would the executives have received those bonuses if AIG went into bankruptcy? Because the money came from the Fed they were able to get the bonuses. Did taxpayers get to vote on these bonuses. Did you hear from these trustees?

Liddy: They were just appointed mid-February. I have met with them on a number of occasions. Reviewed them with Fed.

Biggert: They were appointed after. Did they review this? Who are the trustees.

Liddy: [can't name them] I can get you that list.

Biggert: can you give me three good reasons you should have received that money?

Liddy: Prevent a very disorderly event that could have brought down the whole corporation. We thought it was wiser to err on the side of caution to see if we could keep those individuals in place.

Baca: During the last Admin that came up with these contracts.

Liddy: My predecessors.

Baca: Before Obama took over. So it was under the last admin. Doesn't bonus mean you're performing something that is good.

Liddy: Wind down your responsibility within AIGFP.

[It was in here where Liddy claimed these millionaires are "basic" Americans.]

Hensarling: You were one of the good guys. On page 4 you talk about federal regulators making the decision not to let AIG to fail. Any company

requiring \$170 billion has failed. It is now a conduit for counter-party transfers for federal money. You speak of a plan in your testimony to maximize the value of the core businesses. Will this make the American taxpayer whole?

Liddy: The markets have to "behave." Since October that has proved not to be the case. We think we can still pay back the federal govt.

Hensarling; I spent 10 years in private sector. You had to perform exceedingly well, the company had to perform exceedingly well. Do the recipients of these bonuses share your enthusiasm? Why don't you tie bonuses to making the taxpayer whole?

Liddy: Not in taxpayer's best interest to go there.

Hensarling: Where is the skin in the game for the people who are supposed to turn this around?

Lynch: Agreements. Bonus pool capped. Regardless of losses, bonuses will be given out. Is that consistent with fiduciary responsibility.

Liddy: Not familiar with that contract. No performance bonuses in 2008.

Lynch: Retention. While you're looking at it 3.06.a, the effect of M2M losses on bonus pool, bonus pool not effected by any losses of M2M arising from CDO portfolio. You've immunized yourself from stupidest decisions made by AIG. You've immunized your bonus pool from that stupid decision. This is like the captain and the crew of the ship reserving the life boats. We're going to take the life boats for the crew and the captain. I believe this is reversible. That is simply unbelievable, I think it's probably illegal, we should challenge this as shareholders. Do you have anything to say for yourself.

Liddy: You have generously used the word "you" in your statement. I was not there. I take offense at the use of the word "you" there.

Lynch: I have people in my district who don't

have a 401K, a lot of them are out of work right now. Think about those people and how they feel about having to pick up the tab.

Liddy: I did not put these in place. Omnibus contract retention and performance.

Lynch: I'm a contract attorney.

Liddy: There were no performance bonuses. We did not pay anything in accordance with those clauses.

Campbell: Future of this company. \$2.7 trillion to \$1.6 trillion. If markets were as they are today, they don't get better don't get worse. Run down that \$1.6 billion, what kind of loss would you expect?

Liddy: Rundown can happen in orderly way. Goal is not to lose any money. Entirely possible as long as someone there monitoring book of business.

Campbell: Do you think it likely?

Liddy: It will probably cost a couple of billion.

Campbell: Commercial property and loss, down 24% in fourth quarter, business shrinking in both volume and margins.

Campbell: Will that business be profitable in Q1 this year? Was it profitable in Q4 last year? Property casualty and life side? They could just replace it with another carrier.

Liddy: If there was enough capacity.

Campbell: What is the status of life insurance. Is that business profitable?

Liddy: profitable. If you seel fixed annuities. No one in industry is selling those. We're down same as industry. Persistency has stabilized.

Campbell: Why not sell it now?

Liddy: No buyers.

Miller: Transparency. Kashkari said he didn't

understand question about counter-parties. Did your lawyers consider whether this was an attempt to loot the company?

Liddy: I asked "are these valid contracts, can we break them?"

Miller: Was AIG solvent were they arms length contracts or sweetheart contracts. Have you seen St. Denis' testimony?

Liddy: There is no evidence of wrong-doing in any of this.

Miller: This isn't evidence of cooking the books?!?!?! USG doesn't owe anyone for the debt of AIG.

Liddy: AIG owes the American people \$80 billion.

Miller: what you owe your counter-parties, that's not a debt of US government.

Liddy: No, a debt of AIG.

Miller: Shareholders bear the loss. Unsecured creditors bear the loss. Are we maintaining market discipline to pay your counter-parties.

Liddy: We owe those counterparties that money. Not paying them is an event of default which forces us into bankruptcy.

Miller: Are you going to investigate wrong-doing on part of executives. Civil liability? Can you sue them. You seem to be terrified they might sue you.

Liddy: Judgement was on a risk basis, if we don't have those people.