GEITHNER AND BERNANKE VISIT FINANCIAL SERVICES LIVEBLOG (MEMBER QUESTIONS)

Hearing is on CSPAN3 and the committee thread. In addition to Geithner and Bernanke, the head of the NY Fed, William Dudley, is also here.

For my liveblog on the statements, go here (it's mostly an excerpt of their statements).

Frank: Begin with Bernanke. First an announcement. We have a lot of members here, important hearing. Wish we didn't have 5 minute rule, not so many members, wish I could lose weight without dieting. At conclusion of 5 minutes, whoever is speaking will have to finish sentence. Leave time for questions. Not fair to more junior members. I will also gain weight.

Frank: Made last September. When you made decision to intervene, was it in consultation with Paulson?

Bernanke: Yes.

Frank: I remember question of why no foreign participation. Necessity to retain foreign confidence. People who thought we could blow that off got a little start from the PM of China. On the question of compensation, Dudley, I assume you were talking about reforms that go beyond TARP recipients?

Dudley: We have looked at compensation governance at AIG.

Frank: I'm saying are you talking about outside of context of those who receive funding?

Dudley: AIG.

Frank: Bernanke?

Bernanke: Compensation that links reward appropriately, makes sure we don't get short term for long term outcomes.

Frank: We tried to limit exec compensation, became a partisan issue. Considerable view on Republican side that we should not intervene in terms of compensation. I was please to hear what you said. Compensation that incentivizes top decision makers to take risks unduly is something we'll return to. Last time that came up partisan debate. Resolution authority, Bernanke, if resolution authority had existed, would AIG have been handled differently.

Bernanke: Receivership or conservatorship. Bonuses could have been adjusted. Haircuts against counterparties. Very similar to way FDIC would handle IndyMac.

Bachus: Geithner, you were in the meetings in September?

Geithner: Yes, I was President of NY Fed.

Bachus: Money to counterparties on October 8.

Geithner: purpose of doing so is to protect the economy. Throughout that period of time, wanted to make sure AIG to meet its commitments.

Bachus: Within about 2 weeks payments made to counterparties.

Geithner: Within hours, technically, within minutes.

Bachus: Over $50 billion of these payments. These parties took a risk, didn't they?

Geithner: Any insurance contract posed risks.

Bachus: CDS, I guess you can call it insurance. AIG defaulted.

Geithner: Any of the contracts AIG had on insurance.

Bachus: They were paid 100%.

Geithner: Purpose of intervention, AIG was able to meet obligations.

Bachus: AIG's counterparties paid 100% on the dollar.

Geithner: People who had contracts with AIG, from those who had insurance contracts.

Bachus: I'm talking about foreign govts.

Geithner: AIG fully met its obligations.

Bachus: Was there any discussion of a haircut.

Geithner: We explored at the time, including what you referred to. Because we have no legal mechanism in place, we did not have the ability to selectively impose haircuts.

Kanjorski: Geithner, just in questioning from gentleman from AL we're not sure what happened. Large reason for reaction last week from American people is because they're not well-informed.

Geithner: Taxpayers skeptical. Reasonable reaction.

Kanjorski: Do you feel ultimately that Fed and yourself need more authority in rescue 2, to replace capital in banks? And whether or not this lack of information will cause grave question as to whether or not Congress authorize further rescue money.

Geithner: Will ask for broader authority to prevent future AIG. Budget has reserve fund. I understand skepticism. If it requires more resources, we'll come to you, we recognize that'll be difficult in wake of last 9 months.

Kanjorski: Not a lot of sympathy to provide it. I'm convinced we need additional funding. Probably commit second suicidal act to vote in favor of that funding. In light of those facts, what are you putting in place to adequately inform American people?

TG: Clear commitment to put precise terms of those commitments.

[TG is pretending he wasn't one of his predecessors]

TG: I agree American people need more transparency, partly because of decisions made in wake of September.

Kanjorski: Rules of engagement.

TG: Get credit flowing again. We moved quickly to put into place actions to address housing crisis. New programs on small business lending, those are very important things. Need better clarity on rules of the game.

Garrett; In consultation with Treasury and this Chair.

BB: Consulted a lot.

Garrett: Any discussion of bonuses or pay? Appreciate comment about Liddy. Congress imposing impediments. Going back to your comments. You knew the compensation packages.

BB: Did not know about the AIGFP packages. Would have still faced the same legal problems.

TG: We were spending every minute putting out the fire.

Garrett: While some of this in public domain, Congress not thinking about this? Any consideration, was not conveyed to Congress?

BB: Congressional letters. We have provided info about governance.

Garrett: I don't remember any letters discussing these issues. If info would discuss more publicly, Congress would be more hesitant.

TG: Not aware of specific set of payments until March 10.

Garrett: We have not been informed–you're shaking your head? Orderly winding down of AIG, if not prosepcts of parties to pick up good assets, of more taxpayer dollars?

BB: How economy evolves. Selling off 9 core assets.

Frank: We were TOLD they were going to make this loan. I raised one question, about foreign participation. Two days later asked about TARP, I did make that a high priority. I was there same time as ranking member, both informed. No indication our input would have any impact.

Waters: Five fund managers. Is it possible Goldman would be one of them? Were they included in the five with Paulson? I'll check. You hear dissatisfaction about bonuses, this is conversation about linkages. Goldman received AIG, TARP, where Paulson, your CEO, whomever, worked for Goldman? Your COS?

TG: My COS did spend some time working the past for Goldman.

Waters: Was Goldman involved in decision to ask for money? Sale of Bear?

TG: No. At time when Bear was at risk, range that considered purchase of Bear.

Waters: Goldman was involved.

TG: Not in decision.

Waters: In some way.

TG: Not advising us.

Waters: Were they also involved in decision to not support Lehman.

TG: That decision made by your govt.

Waters: The talk is that this small group of decision makers is Goldman and that's what's causing a lot of the distrust. On the big fund. Is there some reason why only have to have five managers with at least $500 million? Eliminates a lot of firms from being involved.

TG: We're going to run a competitive process so taxpayer enjoys best practical. Practical concerns about why only a limited number. Deeply unfair to suggest that the people making decisions were not in best interest of American people.

King: Bonsues and toxis asset plan. Must be trust and assurance that rules won't be changed in middle of game. What can you do to assure public sector, and we see conspiracy theories, hyperventilating, that these people won't have properties confiscated. Also ask in light of excessive compensation. If govt sets excessive, that's going too far, will firms be protected from ex post facto moral judgments.

TG: Won't get through unless business willing to take risk. Strong standards. Govt should not set detailed rules. Broad standards not encouraging short term risk taking. People responsible for running checks and balances those people too are compensated adequately.

King: Timeline? And legacy asset?

TG: Immediately on ARRA compensation. Quickly put into place.

King: On legacy, toxic asset, changes in M2M?

TG: Relevant legal authority put out for comment. Want to be careful about how to respond. Balance between public disclosure but still address complications in market we're experiencing today.

Maloney: Report from AIG. Put a gun to our heads. I'd put it another way. If we bail out firms every time someone says it, the economy will collapse. Analysis that govt did that AIG needed to be saved. And also analysis that Lehman should fail. Oppty is to study what happened. Does such a document exist?

BB: We've done our own analysis. We will find what we have. On Lehman we did not choose to let it fail, we could find no solution.

Maloney: AIG came back several times for more money, could have put restrictions on management. Analyzed systemic risk more. Documentation during those periods they came back.

BB: We did impose restrictions on executive comp. Problem with AIGFP was set before.

[No mention of the insurance bonuses.

Maloney: Contracts being renegotiated with GM and mortgages. Public statements they could have managed default. Municipal govts systemic risk?

BB: As I discuss in testimony, well beyond specific counterparties, others hedged, but then those that hedged would have lost. Likelihood would have been run on banks.

Maloney: Counterparties a number of foreign banks.

BB: Essential that AIG meet obligations.

TG: Did not act bc AIG asked for assistance. Value of pension plans, capacity to borrow. Can see concrete evidence of what would have happened in wake of failure of AIG. No plausible argument that AIG was not systemic then, or that it is not systemic now. Obligation to do what we believe is best.

Maloney: Reclaiming my time, Could it have been contained.

Bachmann: American people looking at both Fed and Treas, is govt jettisoning free market capitalism.

TG: I do not believe that concern is justified. Understand why worried. Authority Congress gave us.

Bachmann: What in Constitution?

TG: In emergency authorization.

Bachmann: In Constitution?

TG: Authority granted by this body. Under the laws of the land.

Bachmann: Authority to Fed, this has been over 10 trillion.

BB: Right to authorize us funds, 1930s, power to address lending.

Bachmann: Any limits?

BB: Loans have to be collateralized. Reported extensively to Congress. Solely to protect collapse.

Bachmann: China, Kazakh, and Russia, international exchange? Categorically move away from dollar.

TG, BB: I would.

Bachmann: Why not receivership as opposed to conservatorship.

TG: No legal means. If we had had different authority.

Bachmann: Fed denied giving info on overnight loans.

BB: Nothing to do with the bailout. We have never lost a penny. They would be disadvantaged. If banks were revealed to be borrowing and others would not. What's called stigma. If they have to come to the fed, they would not come to the fed.

Bachmann: Leveraging on PPIP? Will American peopel be receiving 90-95% of benefit.

Frank: Time expired.

Bachmann: Can I get answer.

Frank: No. I explained this.

Velazquez: Compensation in September.

TG: Replaced CEO, top execs working for zero, TARP money strictest terms, company agreed to go beyond.

WD: AIG company with weak core, compensation not done on consistent basis.

Velazquez: How can you explain type of bonuses?

BB: Not top execs. Using complex derivatives. Bonuses were disproportionate.

Velazquez: Any email communications regarding bonuses not to top level but to other employees.

TG: March 10 March 10 March 10. Dudley wrote a letter.

Velazquez: Fed through special purpose entities, Are you confident will fully pay back loans.

BB: Half is no longer on the credit of AIG. Secured by other securities.

Velazquez: Worst case scenario?

BB: Collateral for all our loans.

Jenkins: Kansans don't like sending money to foreigners.

BB: Meet obligations to foreign counterparties. Issue of whether foreign banks saved by Europe has not come up. It was under US lack of regulation that AIG failed. In their sense we bear some responsibility. Avoid default. Led to severe consequences.

Watt: Upside potential of 79% ownership is? Geithner, resolution authority, discomfort with one entity to have so much authority. Effect of resolution authority. Basically Treas would be de jure interim systemic regulator outside banking system?

TG: If you think about what balance is right going forward, we can't put all this on the fed.

Watt: Political appointee. Theoretically at least Bernanke not subject to politics of day. Prospect of making political appointee who has that substantial authority. Making it someone who is not affirmatively been given the responsibility as systemic regulator. Might slow down our urgency to do this on more permanent basis.

TG: Build on current FDIC model. Decision to intervene = President, Treas, Fed, and FDIC.

BB: Could be separated. Make the girl deal with resolution.

Watt: Decision to exercise it?

BB: POTUS should be involved.

Castle: Involvement in September, bonuses?

TG: I knew we had a big mess on compensation side. Did not have—should have had—this kind of detailed level of knowledge. Would not have affected our choices because of legal nature of contracts. Lot of this earlier than Jan 2. Not aware of legal nature.

Castle: Dodd language put into question. Lot of finger-pointing. Were you or anyone reporting to you involved in writing of that?

TG: Treasury staff expressed concern, bc vulnerable to legal process. That bill that emerged was a strong bill. Put a responsibility on me to recoup those bonuses. Did express concern about this provision. Did consult in draft.

Castle: Lessons, systemic regulation on non-banks. What did you mean by that in terms of kinds of regulations?

TG: Two elements. Every systemically critical firm, holding companies, consolidated regulator looking at firm. OTS was focused on actions relative to thrift. Poor match for them. What's needed strong oversight reulgator able to deal with all aspects. Some general authority to look at system as a whole, probs in payment systems. Buildups of risky positions. Derivatives. Rather then focusing on each indivi institution.

[So can we have an industrial policy too?]

Ackerman: Real problem is greed. We're not really fixing the problem here. Sorry to say a lot of us are learning that otherwise decent people fulfilling contracts. Problem is being greed assisted by innovation. Part of the solution exert common sense into process. Don't know if we can legislate that. Gimmicks are not financial products. CDS is really not insurance. AIG not only company that used CDS. Are we looking at those other companies, are we going to start getting those into reality?

BB: Intense prob at AIG, using these swaps to sell insurance with no capital or hedging. One approach to make sure those who use CDS instruments have hedging or other instruments.

Or trade CDS not bilaterally, but through central clearinghouse.

Ackerman: Airplane with faulty flickem, ground the whole fleet. Are we looking at doing that, until we can fix the mechanism?

BB: Some use to hedge.

Ackerman: Take very close look at that. Many Madoffs, many AIGs.

Royce: AIG’s competitors complaining about AIG’s extra power in market. AIG slashed prices by more than 30% to keep or win contracts. USOC, AZ airport, FL town govt. First, obvious competitive advantage if they are undercutting competitors. If AIG is not offering actuarily sound rates, could lead to more losses. Verify to markets that AIG’s subsidies will not have full faith and credit in future?

BB: Of two minds. AIG is losing business. But I am concerned about underpricing. At least one or two of state regulators have not found substantial evidence.

Royce: How can we assure that AIG and others not backed by federal govt. We undermine market discipline. Fannie and Freddie borrowed at close to govt rates, saw them go into business of arbitraging. Taking risks you couldn’t take in market.

BB: Addressed a number of approaches to the "too big to fail" problem. Resolution authority to take haircuts.

TG: I share that concern. Address moral hazard. Dial back this assistance. Much stronger constraints.

Royce; If you let them go bankrupt.

Sherman: We understand. We nitpick any proposal that adversely affects Wall Street, and then bestow more money. In hands of maniacal fed, trillions of dollars. You’ve said only AAA. But a year from now, buy AA or A paper. Would you then change interpretation of law.

BB: I'd have to be completely comfortable that fully collateralized. We will be very very careful not to take credit risk.

Sherman: Promised transparency. Will you publish list of all TARP recipients, how many execs earned more than 1 million how many got bonuses over 500,000, and how many are earning salaries of over a million. And contractual rights over $250,000? I don't think it's just AIG. Shouldn't just be blindsided. Chart for each recipient?

TG: blah blah blah

Sherman: Are you gonna give us the chart.

TG: Not going to hide the ball, will reflect.

Sherman: Won't commit to tell the AMerican people who many people are going to give. Thank you for thinking let me move onto the next question. Treas shall require institutions meet appropriate standards. Not to your credit, Kashkari, I said, I'm asking about AIG. Is a $3 million an appropriate standard or has the law been violated. Your QB didn't think a $3 million bonus was inappropriate. $30 million. He said, I can't opine that that would be inappropriate. When are you going to give us the regulations required by law.

TG: Committed to doing those regulations. It's my job to make those judgments and we are working putting those out.

Lucas: 5-10 years later, some millionaires made in disposing of benefits. For $100, how much will that be worth.

TG: dollar from govt, dollar from capital, potentially 6-1.

Lucas: Investor's dollar might get $6 worth of assets. If turn out to be bad, what is potential loss? Can she lose it all?

TG: Yes. Upside will be shared in proportion to capital put in.

Lucas: Could lose all, sometimes those properties, a decade later, not only complete loss, but tremendous gain. Taxpayer share equally in those gains.

TG: Better deal than if govt took on all the risk.

Lucas: A lot of compensation not just bonuses. Stock options. How many of these institutions,

TG: Compensation above a certain limit, stock at risk. and for all, a shareholder vote.

Lucas: have we ever had these kinds of standards before?

TG: Need to look at compensation incentives.

Meeks: CDS. Further regulations in regards to CDS. If we do that what affect on global financial system?

TG: Better disclosure.

Meeks: Could jobs go to London?

TG: Best thing is create much stronger system. To do that we need to make sure to bring world with us. Make sure they also put in place higher standards.

Paul: Just looking back at least admin, we'd have to look back several decades. Congress and Treasury work on assumption that free markets failed. Others crony corporatism and interventionism. Moral hazard. We didn't have capitalism. We had no savings, artificially low interest rates. Everybody loves the boom, but when the bust comes, everybody hates it. I don't see that we're addressing the real problems. Trying to find victim. Wrong direction whether it's AIG or the rest. We don't seem to improve anything. How do you operate in your mind. Did capitalism fail? Too much risk built into system. If I see that you've totally protected the market.

BB: blah blah blah.

Paul: isn't that what creates the moral hazard?

BB: Former panics.

Paul: But they used to last a year.

Moore: Total exposure = $2.875 trillion. Is that number still accurate or do you have a different number? Can we expect taxpayers fully repaid?

TG: I suspect represents total loans and capital. DOes not reflect risk to taxpayer. Collateral backing behind those loans. We'd be happy to come back to you on the risk to taxpayer. Being careful designed with way that minimize risk. Govt will take risk. I cannot stand before you and say no risk to loss. Do our best to minimize risk.

BB: Less than 5% of lending associated with Bear and AIG. THose loans are riskier. We've never lost a penny on any of those programs. We believe it's quite safe.

[Anyone going to follow up on Maiden Lane?]

Moore: Chair, you testified in September, there might not be a market the following week. I voted for both of so-called rescue programs. Those were the most uncomfortable votes. You still believe right action.

BB: The effect are extraordinarily powerful.

TG: Difficult but brave and important act. Without, we'd be in deeper recession, more protracted recession. much more expensive. Necessary act. Prevent more catastrophic outcome.

Manzullo: Purchase insurance from AIG so value would not fall. Their retirement plans did not get cut in half. What about rest of Americans who lost half of savings in retirement plans?

BB: That decline since failure of Lehman in September.

Manzullo: Most AMericans lost 40% of their retirement plans, but pay money so AIG won't lose any on their retirement funds.

BB: These are loans. Purpose of the action was not to help any specific counterparty.

Manzullo: And they are paying $40 billion so they don't lose any of their retirement plan.

BB: The purpose of

Manzullo: Did the people who took out insurance plans get reimbused 100%? Yes or no?

BB: The purpose of

Manzullo: You did not answer the question. The American people have lost 40-50% of their retirement plans.

Dudley: Insurance was on stable value funds. If the stable value funds had lost value.

Manzullo: Americans lost. Can anyone give me a yes or no? Please? We could lose half our factories. None of you people can answer yes or no.

BB: Poorly posed question.

BB: If we had not made that intervention they would have lost 70%.

Capuano: In comparison, proposal put out today much more important. At least 2-3 no authority to do anything earlier. I believe you could have used the same term to get into these issues beforehand to avoid this. I want to talk about the plan. I see FDIC as taxpayer funded. We all know that if FDIC failed, we'd bail it out. We all pay it through higher bank fees. If FDIC is included, not a 6-1, it's a 13-1 ratio. Will be 93% paid by taxpayers. 50 trillion?

TG: 14 trillion. Globally much higher. Assets this program targets.

Capuano: You're using ratings by the same credit rating agencies that have got us here. Being used to finance purchase of toxis assets. Float collateralized obligations to purchase these obligations.

TG: This is based on existing mechanism in normal part of what they do. They helped design this. We think it's the best way.

Capuano: Are they going to fund by floating? Why does it say this on your website?

TG: I just wouldn’t call that a CDO. It’s good for FDIC borrowing.

Capuano: We can disagree about what’s good and bad. I think you’re dead wrong on this one. In this particular case, yes taxpayers may benefit if profit. If there’s a loss.

Biggert: 3 trustees. We’ve never even heard about these trustees, what happened with the taxpayers. Move ahead. [wander wander wander] What are your resources.

TG: We’re going to need to bring enough people. We’re finding a lot of people willing to come in this moment of challenge?

Biggert: Number of people relying on?

TG: I’d be happy to give you exact numbers, but we’re going to need more.

BB: Which specific issue? AIG is being managed by Fed NY, primarily, about 10 of people all the time, analysts at board, also outside consultants where we don’t have the expertise.

Biggert: Saw an ad in local papers. Investor wants to be a part of this. How would they go about doing that. Individual? Or 5-6 management.

TG: Most realistically through pension fund.

[so, no, no indivdiuals.]

Biggert: Trustees?

BB: Voting interests of US treasury.

[NAMES???]

TG: Haven’t had oppty to work with 3 trustees since I took on this post. This structure designed when I was president of NY Fed, concluded before I left the fed.

Lynch: AIG special case. Stepped up in big way. We became rescuer. Employees at firm, in this business saw that things were so weak, build firewall between damage and their bonuses. Makes me crazy. Regardless of what happens to company they’d get bonuses. As they saw bankruptcy looming, they said creditors will come in, so they made special agreement to take care of themselves. This is objectionable. We have a cause of action as shareholders. Is there not a fraudulent conveyence here? I know about CT law, I still think these are supervening incidents.

TG: Share your frustration.

BB: We’ll check this with our legal advisors. I’m hopeful that you’re right. Perfect example where compensation not related to risk-taking.

Dudley: Pretty egregious. We’ll look into what can be done.

Frank: Treas has to leave at 1. Any members who wish to pass will go ahead of list on Thursday.

Hensarling: Bonus timeline. September 23, 8K.

TG: We all knew whole range we were going to have to deal with.

Hensarling: Not aware of public disclosure. Fall 2003, people all knew.

TG: Enormous number of compensation plans. Different basic challenges. Legally contractual.

Hensarling: Sarah Dahlgren, top aide whiel at NY Fed, she was briefed on bonus plan.

TG: I’m sure that dedicated public servants.

Hensarling: Personally aware?

TG: I’m not sure what she was briefed on.

Hensarling: November 23, 8K

TG: These specific, no?

Hensarling: February, Treasury personally informed.

TG: That’s my responsibility. Question is whether we had better options. I don’t think we did.

Hensarling: AIG unregulated in unregulated market. Head of OTS, I asked if he had power to regulate financial products.

TG: I believe that neither the entire entity nor that part had effective regulation. I’m going to disagree with [OTS]. I don’t believe you can look at this system to say it was effective.

Hensarling: White House aides returned to fundraiser who gave to Obama? Did these people receive any benefit.

TG: As part of designing these programs, consultations, carefully managed.

Miller: Liddy from Goldman Saches. Any discussion about whether appointing him issues of appearances?

TG: I would never make a judgment bc it would benefit a specific entity. In case of Liddy, choice of CEO and suggestion was not made by Fed, presented with him as possible candidate. In my judgment he was an excellent choice. I don’t believe anything he’s done is vulnerable to criticism.

Miller: Appearance of impropriety? He was on Board of company that had most exposure to CDS contracts with AIGFP. I was careful in saying there may be natural tendancy to think in terms of public interest and Goldman interest as more intertwined than people think.

TG: In our judgment that was the best choice at the time. No concern about sympathy to counterparties. Broad mix made him exceptionally qualified people.

Miller: Mean lawyers. Looking at personal liability claims.Liddy showed very little interest in pursuing claims on fiduciary claims.

TG: Exploring all legal evidence.

Barrett: Was Treasury’s assistance with AIG consistent with how Paulson sold the TARP?

TG: Legislation you passed provided authority to put capital into system.

BB: Appropriate, purchase of

Barrett: Consistent.

BB: Emphasis he put was purchase of assets. He did not follow through on that.

Barrett: Because of Congress' actions last week would enter contract with us?

TG: Right to express concern. Better balance with Congress.

Barrett: Very clear guidelines.

Barrett: Undated letters of resignation. Are we doing anything like that to make sure they're being held responsible for their actions.

TG: Right away changed management. Ensure accountability.

Barrett: Undated letters of resignation.

TG: I don't know that we need this tool.

Barrett: $64 trillion question. Backup? If everything fails, where do we go?

TG: This plan will work. It just requires will, it's not about ability.

[Shit. He sounds like Bush: There is not plan]