

GEITHNER AND BERNANKE VISIT FINANCIAL SERVICES LIVEBLOG

A few days ago, this hearing might have focused on why we need to bribe the banksters to clean up their mess. Now, it will undoubtedly focus on why we're socializing risk some more. We'll also have William Dudley, the new head of the NY Fed.

- The Honorable Timothy F. Geithner, Secretary, U.S. Department of the Treasury
- The Honorable Ben S. Bernanke, Chairman, Board of Governors of the Federal Reserve System
- Mr. William C. Dudley, President and Chief Executive Officer, Federal Reserve Bank of New York

The hearing is on CSPAN1 and the committee stream. We'll have a long series of member statements before we get to Tim and Ben.

From Geithner's statment, he's still pushing regulation of "too big to fail" rather than avoiding "too big to fail."

We must ensure that our country never faces this situation again. To achieve this goal, the Administration and Congress have to work together to enact comprehensive regulatory reform and eliminate gaps in supervision. All institutions and markets that could post systemic risk will be subject to strong oversight, including appropriate constraints on risk-taking. Regulators must apply standards, not just to

protect the soundness of individual institutions, but to protect the stability of the system as a whole.

And here's Timmeh playing dumb on bonuses.

In November, as part of the government's infusion of capital, Treasury imposed the strictest level of executive compensation standards required under the Emergency Stabilization Act. When we were forced to take additional action in March, we required AIG to also apply the Treasury rules that will be promulgated based on the executive compensation provisions in the American Reinvestment and Recovery Act.

See, AIG has given out bonuses to 4,500 people since we bailed them out in September. And Treasury knew about the AIGFP bonuses (to be paid in March) when they were negotiating the most recent \$30 billion. But for some reason Timmeh doesn't want you to know about it.

Barney Frank: [Reminding the context of AIG, the Lehman collapse and the no involvement of Congress] Two examples of how not to proceed. Lehman, not help for creditors. The other one, AIG, help for all of the creditors. Contrast with Wachovia, IndyMac, WaMu. Those of us who will mourn Countrywide are a small number. Regulators that contained the damage. Neither Lehman total collapse on economy or excessive intervention. We need to give somebody somewhere in Federal govt to put non-banks out of their misery. A form of bankruptcy power under Constitution.

Bachus: To Garrett, Hensarling, Castle.

Garrett: Concerned both about Fed and Administration. Why did the Administration do an about face on disclosing counterparties? Did that undermine your independence? Why didn't the Admin negotiate further with counterparties? I

want to challenge claim that AIG's problems originated with CDS stuff. OTS raised concerns in 2005. Geithner: Altering provisions in stimulus. Did Geithner raise the bonuses with President before paid?

Hensarling: Bonuses paid out by profitable companies makes sense. Taxpayer money making foreign institutions whole. No convincing plan of profitability or taxpayer recoupment. [False outrage that Obama didn't fix Bush's mistakes!!! And outrage that the conference report—which Susan Collins participated in—included the bonus stuff] Unconstitutional tax on bonuses. Setting dangerous precedent of punishing people after the fact. What did the Obama Administration know and when did they know it? [No apparent outrage over the Bush Administration] If you like the way Obama Administration has been running AIG, you're going to love socialized medicine.

[Hensarling has been reading Eliot Spitzer]

Kanjorski: Want to learn about plan, people, involved in AIG oversight. Plan to recover the loans to AIG. Outrage about sizeable retention bonuses. If Federal officials had exercised active oversight, we could have prevented that.

Castle: I don't see the transparency in this, some which relate to secretary, some which relate to Federal Reserve. We know, Mr. Sec, you were very involved back in September. Fed knew about bonuses in fall 2008. With that knowledge you would have known up until you told President. Then Dodd and the stimulus change. Could something have been done before we passed legislation last week? Maybe there wasn't transparency, maybe it could have been prevented.

Geithner: [Just reading from his written statement]

[Frank interrupts to yell at people holding signs]

Here's Bernanke's statement of why they had to bail out AIG (from his statement):

The Federal Reserve and the Treasury agreed that AIG's failure under the conditions then prevailing would have posed unacceptable risks for the global financial system and for our economy. Some of AIG's insurance subsidiaries, which are among the largest in the United States and the world, would have likely been put into rehabilitation by their regulators, leaving policyholders facing considerable uncertainty about the status of their claims. State and local government entities that had lent more than \$10 billion to AIG would have suffered losses. Workers whose 401(k) plans had purchased \$40 billion of insurance from AIG against the risk that their stable value funds would decline in value would have seen that insurance disappear. Global banks and investment banks would have suffered losses on loans and lines of credit to AIG, and on derivatives with AIG-FP. The banks' combined exposures exceeded \$50 billion.¹ Money market mutual funds and others that held AIG's roughly \$20 billion of commercial paper would also have taken losses. In addition, AIG's insurance subsidiaries had substantial derivatives exposures to AIG-FP that could have weakened them in the event of the parent company's failure.

With the email that hits the big reason:

In addition, many of these same banks had borrowed securities from AIG's securities lending program for which they had given AIG cash as collateral. Upon an AIG bankruptcy, the banks would have taken possession of the securities instead of receiving back their cash, exposing them to possible losses on those securities.

Bernanke up. He's just reading his statement

too.

Note, Bernanke's statement does not include the words "Maiden Lane," and I don't **think** he discusses it in his statement (though I could be wrong).

Dudley says the Fed doesn't have the ability to do everyday oversight:

In light of the exceptional size and scope of AIG's operations, with over 110,000 employees in more than 130 countries, spanning hundreds of legal entities, it was clear from the beginning that the New York Fed – which had never been engaged in any regulatory oversight of the company – was not in a position to exert day-to-day management control over the company. Rather, the New York Fed's actions have consistently been directed at securing its objectives as lender. As any lender in our position would do, the New York Fed has put into place a loan agreement that contains covenants designed to help ensure ultimate repayment of the loan – but these creditor's rights do not create an ability to manage AIG.

Responsibility for AIG's day-to-day affairs continues to rest with AIG's Chief Executive Officer, Edward Liddy, under the oversight of AIG's board of directors. Mr. Liddy, who has only become involved with AIG in a public-spirited attempt to resolve its troubled affairs, has made strides in dealing with AIG's opaque corporate structure, lack of centralized controls, and complex risk exposures, but much remains to be done.

In light of the inherent conflicts that would arise from either the U.S. government or the Federal Reserve exerting ownership control over the world's largest insurer, the Federal

Reserve, with the support of the Treasury Department, directed in the loan agreement that an approximately 77.9 percent equity interest in AIG be issued to an independent trust established for the sole benefit of the United States Treasury. The trust, which now holds that controlling equity interest, is overseen by three independent trustees who are of the highest integrity and who have considerable experience leading major companies. These trustees have a legally binding obligation to exercise all of their rights as majority owner of AIG in the best interests of the U.S. taxpayer, with the proceeds of any ultimate sale of shares going directly to the Treasury of the United States.

So why aren't those trustees here today? And why aren't they named?

Also note, Dudley basically seems to have bought off on the extortion:

With respect to the retention awards owed to FP employees under their pre-existing contracts, we believe that Mr. Liddy weighed a number of factors in deciding not to attempt to prevent payment, including:

- *the likely negative effects of disruption in staffing at FP in managing its multi-billion dollar exposures;*
- *legal advice that the contracts were valid – meaning that breaking them would likely increase the amount of*

company funds ultimately paid to the covered employees; and
▪ *the negative consequences to AIG's business that could result from the public abrogation of contracts.*

In conducting our oversight as lender, the New York Fed did not see reason to disagree with Mr. Liddy's judgment from a risk perspective. Equally important, we did not think it was legally permissible – or within the proper role of the New York Fed – to attempt to substitute our judgment for that of Mr. Liddy in this circumstance, even though we found the payment of the retention awards extremely distasteful.

I wonder what these unnamed trustees running our insurance company thought?

Though Dudley seems to want to say it's the trustees and Treasury that runs AIG:

Although oversight of TARP-related compensation matters rests with the Treasury Department, the New York Fed has played a role since September in reviewing the adequacy of AIG's corporate governance procedures.

Also, breaking news: We're going to keep some insurance companies for now:

Notably, we have recently agreed in principle to accept preferred interests in two of AIG's large foreign life insurance subsidiaries, AIA and ALICO, in order to make repayment of our loan less dependent on forced divestitures

█ into a depressed acquisition market.

No mention of long-term ownership of any soccer companies.