

For Immediate Release  
Wednesday, December 2, 2009

Grassley asks for accounting of developments in bailout of AIG

WASHINGTON – Senator Chuck Grassley has asked Treasury Secretary Timothy Geithner and the President and CEO of the Federal Reserve Bank of New York, William Dudley, questions about the government’s handling of its bailout of American International Group, or AIG, the largest underwriter of commercial and industrial insurance in the United States.

In a letter sent to both Geithner and Dudley, Grassley asked for an assessment of how taxpayers get a better deal from holding AIG equity instead of debt, following yesterday’s announcement by the New York Fed that AIG retired \$25 billion of debt by providing the New York Fed with shares in two AIG subsidiaries.

Grassley also asked for an explanation of why the Treasury Department this year changed the AIG preferred stock from “cumulative,” where missed dividends must be paid at a later date, to “non-cumulative,” where they need not be paid at all. Finally, Grassley asked for a report from the Treasury Department of the criteria and process it is using to select at least two members of the AIG board of directors that the Treasury Department will be appointing because AIG missed its fourth consecutive dividend payment owed to the Treasury Department earlier this year.

“Given the more than \$120 billion in taxpayer money that’s been put on the line for AIG, the public deserves answers to these basic questions,” Grassley said.

Timeline of AIG Financial Products bonuses paid; AIG dividends not paid:

November 25, 2008

The Treasury Department buys \$40 billion of AIG Series D cumulative preferred stock.

February 1, 2009

AIG misses 1<sup>st</sup> quarterly preferred stock dividend payment.

March 16, 2009

AIG pays \$168 million in bonuses to AIG Financial Products.

April 17, 2009

The Treasury Department exchanges the \$40 billion of Series D cumulative preferred stock for \$41.6 billion of AIG Series E noncumulative preferred stock. Treasury also provides AIG a credit facility of up to \$29.8 billion in exchange for AIG Series F noncumulative preferred stock and warrants to purchase AIG common stock.

May 1, 2009

AIG misses 2nd quarterly preferred stock dividend payment.

August 1, 2009

AIG misses 3rd quarterly preferred stock dividend payment.

October 2, 2009

Special Master for TARP Executive Compensation approves compensation package for AIG management, including up \$3.5 million annual bonus for AIG CEO.

November 1, 2009

AIG misses 4th quarterly preferred stock dividend payment.

March 2010

AIG has \$198 million in AIG Financial Products bonuses scheduled. The Treasury Department has indicated that the Special Master will take the bonuses into account in approving future executive compensation. On the other hand, the Special Inspector General for TARP has said the March 2010 payments may be renegotiated.

Here is the text of Grassley's new letter to Geithner and Dudley.

December 1, 2009

The Honorable Timothy F. Geithner  
Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

The Honorable William C. Dudley  
President and Chief Executive Officer  
Federal Reserve Bank of New York  
33 Liberty Street  
New York, NY 10045

Dear Secretary Geithner and Mr. Dudley:

I am writing about the status of the billions of dollars in taxpayer money that is in jeopardy due to actions by both the Department of the Treasury (Treasury) and the New York Federal Reserve (NY Fed). Treasury has given AIG over \$40 billion of Troubled Asset Relief Program (TARP) funds, and given AIG access to an additional \$29.8 billion of TARP funds, in exchange for AIG preferred stock. Before that, the NY Fed lent about \$30 billion in the Maiden Lane limited liability companies, which in turn purchased AIG's troubled assets.

I expressed my concerns last year to then Treasury Secretary Paulson and then NY Fed President Geithner that the American people would never be repaid. At that time, staff of the NY Fed repeatedly insisted that the investments were sound and monies would be repaid. Yet, the exact opposite is occurring.

As you know well, AIG was supposed to pay dividends on the preferred stock. Ultimately, America's taxpayers are supposed to be repaid in full through the sale of AIG businesses and internal cash flow. Unfortunately, that is not how things seem to be working out. For example, the Government Accountability Office (GAO) said that the prospect of AIG repaying the government is "uncertain." Both GAO and the Special Inspector General for TARP (SIGTARP) recently reported that AIG has not paid any dividends on the preferred stock, despite apparently two profitable quarters. Adding insult to injury, in October, the SIGTARP stated that AIG's payment of retention bonuses was a failure.

It also appears from GAO reports that earlier this year Treasury changed the AIG preferred stock from "cumulative," under which missed dividends must be paid at a later date, to "non-cumulative," under which missed dividends need not be paid at all. There seems to be no reason for this give-away of taxpayer funds other than to manipulate the rating agencies into giving AIG an artificially higher rating than it deserved. However, I would greatly appreciate getting a detailed explanation about how and why this decision was made.

Today, the NY Fed announced that AIG retired \$25 billion of debt by providing the NY Fed with shares in two AIG subsidiaries - American International Assurance Co. and American Life Insurance Co. Exchanging debt for equity still leaves taxpayer dollars at substantial risk. I would like to know why you think acquiring these interests is a better deal for taxpayers than holding it as debt.

I was also recently informed that on November 1, 2009, AIG missed its fourth consecutive dividend payment. The failure of AIG to pay dividends gives Treasury the right to appoint at least two members of the AIG Board of Directors. I understand that a search by Treasury for replacement AIG directors is underway presently.

Accordingly, please inform me of the status of your efforts to find new directors for the AIG Board. I would like to know the criteria you are using to select people of the highest qualifications for these important positions. I would also like to receive a copy of the criteria being used, as well as the process being implemented to select new directors to the AIG Board. In addition, please inform me of your plans to: (1) ensure that AIG begins paying dividends on the preferred stock purchased by Treasury with TARP funds, and (2) unwind the preferred stock purchase and recoup the billions in taxpayer money given to AIG.

Thank you in advance for your cooperation and I would appreciate receiving responses to my questions by December 9, 2009.

Sincerely,

Chuck Grassley  
United States Senator  
Ranking Member of the Committee on Finance