



United States Senate  
**Committee on Banking, Housing, and Urban Affairs**

Christopher J. Dodd (D-CT), Chairman

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**Opening Statement of Chairman Christopher J. Dodd**  
**“American International Group: Examining what went wrong, government intervention, and implications for future regulation”**

**Remarks as Prepared:**

This morning the Committee will examine what went wrong with American International Group, what lessons can be drawn from this situation, and where its government overseers are headed. We have before us representatives from the state and federal regulators of the insurance giant as well as the Federal Reserve that decided to launch the government rescue of AIG last September.

I invited the Treasury Department to send a witness to testify, but they were unable to send anyone to the Committee this morning. Given Treasury’s increasing responsibilities as effectively the owner and overseer of AIG, and all of the other commitments Treasury has made on this front, this is deeply troubling to me. I recognize that the Department is struggling to get its senior staff in place, and to get people confirmed for high-level positions. But in my view they need to be able to explain their actions to the American people. And it is unfortunate that will not happen at this hearing.

With 10,000 foreclosures and 20,000 layoffs each and every day, I wish we were today instead talking about how to help those struggling to get by through no fault of their own, not an institution indebted to sophisticated investors who should have known better – and *did* know better.

Instead, we are here in the wake of the fourth plan to rescue AIG, once again committing tens of billions of dollars to a massive failed institution because, as the *New York Times* said last week, it effectively “has the world’s financial system by the throat.”

That we find ourselves in this situation at all is, in my mind and the minds of many of my constituents, sickening.

How did it come to this? That is a question this Committee seeks to answer today. Certainly, there are a lot of reasons. If the financial meltdown was a man-made disaster due in part to bad mortgages, AIG’s collapse was predicated in part on the company’s decision to essentially insure securities backed by those mortgages and sell those derivatives to speculators – thus encouraging more and more risky investments.

When the credit markets seized up last September, AIG found itself on the verge of bankruptcy. In the wake of the decision by then-Treasury Secretary Paulson and Fed Chairman Bernanke to

allow Lehman Brothers to declare bankruptcy, the Federal Reserve decided to exercise its authority as lender of last resort by lending AIG up to \$85 billion.

In exchange, the government took approximately 80% ownership of AIG, effectively taking over the company. At the time, the Fed, in their report required by Congress, told this Committee that they did not believe this deal would result in any “net cost to taxpayers.”

With that rosy projection, AIG went on to have the single worst quarter of any corporation in history, losing over \$60 billion. That effectively means that during the final three months of last year, after the government had effectively taken it over, AIG lost more than \$450,000 per minute, every minute of every day.

With the Federal Reserve and then-Treasury Secretary Paulson continuing to provide additional government funds to the company, the AIG ordeal has now required the taxpayer to put in upwards of \$150 billion to keep the company from bankruptcy.

Indeed, the Fed has provided another almost \$40 billion to AIG through two separate Fed-owned and -operated special purpose vehicles, Maiden Lane II and Maiden Lane III.

Maiden Lane II was designed to absorb the problems associated with AIG’s secured lending facility, which state insurance Commissioners allowed to be heavily leveraged to mortgage backed securities, the value of which disintegrated.

Maiden Lane III was designed to absorb the losses AIG had incurred through writing credit default protection against mortgage-backed securities in AIG’s financial products office, which was not directly regulated.

It was through that facility that the Fed has paid out at par the holders of credit default swaps and corresponding securities. And it’s reasonable to ask why holders, who would have received only pennies on the dollar for their credit default swaps absent any government intervention, would expect or deserve payments from what essentially is a bankrupt company.

It’s not clear who we’re rescuing – whether it is whatever remains of AIG or its trading partners. This Committee would like to know – and the taxpayer has a right to know – who they are effectively funding and how much they have already been given. Again, AIG’s trading partners were not “innocent victims” here – they were sophisticated investors who took enormous, irresponsible risks with the blessing of AIG’s triple-A rating.

The lack of transparency and accountability throughout this process has been stunning. Throughout the entire fourth quarter last year, it was frankly never clear who owned AIG or who was in charge. It was well documented that AIG management was allowed to pay extravagant bonuses – their employees went on luxury trips all over the world. Little wonder – it took almost 5 months for the Fed to select a single trustee to manage the government’s interest in AIG. During that time, it seems clear the foxes were guarding the henhouse.

So, to say we have questions would be an understatement.

What were the state insurance commissioners doing while AIG was building up this huge exposure in the secured lending program, which was under their watch?

Where was the Office of Thrift Supervision as AIG's holding company regulator throughout all of this?

What coordination occurred between the Fed, the OTS, and the state insurance regulators? Was there any at all?

And finally, who has been in charge of AIG these last few months and who will be going forward? Who's in charge?

I have many questions for Treasury and again, I regret they are not represented here. I encourage Members to submit questions directed to them for the record, as I will be doing.

One question that already has a clear answer is why we need a vibrant insurance industry – and I would add that many in that industry, including those in my home state of Connecticut, are as aghast at AIG's behavior as we are.

If credit is the life blood of our economy, and a healthy banking system is the heart that pumps credit through our economy, then our insurance companies are the lungs that provide the oxygen we need to make sure that credit flows. For businesses to function and create jobs, they need access to insurance to protect their investment.

That requires a robust insurance industry capable of providing insurance on fair and sound terms to allow construction projects to be built, businesses to employ workers and families to insure against unexpected events.

As such, we are here not just to better protect the taxpayer funds that have been put at risk to prop-up AIG, but also to draw upon this experience and examine what our future regulatory structure must look like so that insurance will be readily available, consumers and policyholders will be adequately protected, and our nation's economy can be rebuilt.