

Bachus Exchange With Secretary Geithner on AIG

March 26, 2009

In response to a number of requests, this is the unofficial transcript of the exchange between Congressman Spencer Bachus and Treasury Secretary Tim Geithner regarding AIG making its counterparties whole during the Financial Services Committee hearing on March 24th.

BACHUS: Thank you.

Secretary Geithner, on September 14th, you and Secretary Paulson met with AIG to discuss Lehman's failure and their worsening condition.

GEITHNER: We had a series of meetings in the days preceding the action by the Fed on the 16th...

BACHUS: On the 16th, OK.

GEITHNER: ... with AIG and a range of other financial institutions. As the chairman said, you know, the -- the world was going through a -- a...

BACHUS: Oh, yeah, I -- I understand that, but you met with them and as a result of that -- those meetings, September 16th there was a government intervention supervised and -- and coordinated and led by the New York Fed, and you were president of the New York Fed.

GEITHNER: I was president of the New York Fed.

BACHUS: At September 16th, the government became the 79.9 percent owner of AIG, is that -- that's correct.

GEITHNER: That is correct.

BACHUS: All right. Then there was a \$85 billion government guarantee that went to AIG -- or funds, is that correct?

GEITHNER: That's correct.

BACHUS: Then on October the 8th, a good amount of that money was paid to the counterparties. is that correct?

GEITHNER: Well, again, the purpose of the intervention was to prevent default by AIG because the -- our judgment was the consequences of default would have been catastrophic to the American economy, and so...

BACHUS: Sure. I -- I understand that.

GEITHNER: So AIG was able to, as a result of the intervention -- to meet a full range of its obligations as a large complex financial institution.

BACHUS: Sure, I understand that. But what I -- what I am saying is that -- took over on September 16th, then on October the 8th began to pay the counterparties off.

GEITHNER: Well, again, throughout that period of time -- and this was critically important to the stability of the financial system -- we wanted to make sure AIG was able to meet its commitments.

BACHUS: I understand that, to -- and you -- to pensioners, to -- to retirees, to...

GEITHNER: Municipalities.

BACHUS: ... Municipalities.

GEITHNER: To banks.

BACHUS: But what I'm saying is within about two weeks these payments are -- or three weeks, payments were made to the counterparties. I -- I'm not...

GEITHNER: Well, I think probably within hours, technically.

BACHUS: Within hours, OK.

GEITHNER: Within minutes, probably.

BACHUS: All right. Within hours. Now, you know, there's been now a total of somewhere over \$50 billion worth of these payments to counterparties. I'm -- I'm very interested in that.

I mean -- and we -- these payments to counterparties -- these were parties that took a risk in entering into agreements with AIG, were they not?

GEITHNER: Absolutely.

BACHUS: OK. And these were credit default swaps, securities lending, things of that nature, which you can lose money on.

GEITHNER: Well, any insurance contract written by AIG posed risks to the person who bought that insurance contract.

BACHUS: Sure. And a credit default swap is sort of a -- I guess you could call it a form of insurance. But what...

GEITHNER: (inaudible)

BACHUS: ... I'm saying is it was an agreement between two parties.

GEITHNER: (inaudible)

BACHUS: And AIG defaulted or as on the.

GEITHNER: AIG was.

BACHUS: ... verge of defaulting.

GEITHNER: Well, AIG was on the verge of default, so.

BACHUS: OK.

GEITHNER: ... again, any of the contracts AIG had with millions of people who bought insurance from it, from.

BACHUS: Well, I understand those people and those contracts with people, you know, retired teachers, etc. But now I'm focusing on the counterparties. Were they repaid 100 percent of everything AIG owed them, is that correct?

GEITHNER: I'm not sure if technically that's right. But, again, the purpose of the intervention was to ensure.

BACHUS: No, I'm not talking about the purpose of the intervention. I'm.

GEITHNER: No, but the result of the intervention was, AIG was able to meet its obligations under its full reach of insurance contracts.

BACHUS: But what I'm saying.

GEITHNER: (inaudible) contract.

BACHUS: Mr. Chairman, or Secretary, is that AIG's counterparties were paid 100 cents on the dollar.

GEITHNER: The people that had contractual obligations from AIG, (inaudible) bought an insurance protection product or a basic insurance product.

BACHUS: Well, we're not talking about.

GEITHNER: (inaudible) were paid.

BACHUS: ...insurance policies here. I'm talking about.

GEITHNER: No, but this is very important.

BACHUS: I'm talking about the foreign banks, Goldman Sachs. They were paid 100 cents on the dollar, were they not?

GEITHNER: Again, that was the purpose and result of

BACHUS: Well, I'm talking about -- I'm just saying, they were paid 100 percent of what they were owed. Is that.

GEITHNER: AIG was able to meet its commitments, and met its commitments.

BACHUS: At 100 percent.

GEITHNER: It fully met its obligations, yes.

BACHUS: Sure. Fully met its obligations.

GEITHNER: Yes.

BACHUS: Well, my question to you -- and I'm not -- was there any discussion over a haircut or a 95 percent -- taking 95 percent or 90 percent as full payment?

GEITHNER: We explored at that time every possible means to reduce the drain on their resources.

BACHUS: Well.

GEITHNER: Including what you referred to. But again, because we have no legal mechanism in place for dealing with this, like we deal with the banks, we did not have the ability to selectively impose losses on their counterparties.

BACHUS: You were 80 percent owners.

NOTE: Click [HERE](#) to view video of this exchange.

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