



OPENING STATEMENT OF CHAIRMAN EDOLPHUS TOWNS

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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“The Federal Bailout of A.I.G.”

Good Morning.

On September 16, 2008, the Wall Street giant AIG faced immediate bankruptcy. AIG was saved from collapse when the American people came to the rescue with an \$85 billion bailout. Less than two months later, the American taxpayer was again forced to pay the bill when the Federal Reserve directed AIG to hand out billions of dollars to counterparties that included the biggest names on Wall Street.

In effect, the taxpayers were propping up the hollow shell of AIG by stuffing it with money, and the rest of Wall Street came by and looted the corpse.

The circumstances surrounding the payments to the counterparties has created an air of suspicion and distrust among the American people, starting with the New York Fed's initial refusal to name the counterparties.

The New York Fed argued that disclosing the counterparties would somehow injure AIG. In fact, when the information was finally released under pressure from Congress, nothing happened. It had absolutely no effect on AIG's business or financial condition.

But it did have an effect on the credibility of the Federal Reserve and it called into question the Fed's penchant for secrecy. We need to change the culture on Wall Street and the culture among the regulators, from secrecy to transparency, recognizing that only truly confidential competitive or consumer information should be protected.

As we sit here a year and a half after AIG handed out billions in taxpayer dollars, because of this secrecy we still don't know why or how the decision to rescue AIG was made, or who made the decision to offer AIG's

trading partners 100 cents on the dollar in the so-called counterparty payments.

Every day in the business world, when a company is having financial problems, its creditors have to take less money than they are owed. Otherwise, they risk not getting any money.

They call this a “haircut.” In the case of AIG, nobody got a haircut. Instead, they were given a piggy bank full of taxpayer dollars. Let me just say plainly what I think just about every American would say: the government should have forced AIG’s counterparties to take less money.

Evidently, major decisions were made by a combination of the Federal Reserve, the Federal Reserve Bank of New York, and the Bush Treasury Department. Today, we will hear from witnesses who were involved in making these decisions, and we hope they can shed light on a murky set of facts.

Under subpoena, this Committee obtained more than 250,000 pages of documents from the New York Fed detailing its handling of the AIG

counterparties. Particularly disturbing is the fact that these emails indicate that AIG proposed to disclose to the SEC and the public the names of the counterparties and the payments. But it was the New York Fed that directed AIG to withhold this information. As one New York Fed staffer put it, “any public disclosure by AIG is still subject to Fed approval.”

At least two things are clear: The entire financial regulatory system was broken, and there shouldn't be any more bailouts. The lack of transparency we have seen in the double bailout of AIG leads to distrust, which leads to anger.

The question that looms over all of this is, how do we prevent a repeat of this financial crisis in the future? Unless we in Congress adopt genuine financial services reform, it will be only a matter of time before we see another AIG, another Bear Stearns, another Lehman Brothers. The next big bank will be “too big to fail” and the taxpayers will wind up footing the bill again.

I ask my Republican colleagues on this Committee to join with me in fixing the system. Blame is about yesterday. Fixing the system is about the future.

In the AIG case, we can talk all we want about complicated business deals, but this all boils down to a simple concept – when average people were losing their homes and jobs, the same big banks that caused the problems got every dollar back, courtesy of the American taxpayer. And the Federal Reserve tried to keep important information secret.

Secrecy leads to distrust. And the American people now distrust what happened in these bailouts. Congress has the right to know how and why that happened and the American people have the right to know how and why that happened.

I hope that today we can get answers to these and other very important questions.