Obama administration announces billions more in bailouts to AIG

Jerry White
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The US Treasury handed over another $30 billion in public assets to American International Group (AIG) Monday. This is the fourth time the government has stepped in to bail out the giant Wall Street insurer, which has already received more than $150 billion in cash and loans.

According to reports, the Obama administration rushed to put together the deal over the weekend in order to prevent a possible financial panic in reaction to the company's scheduled earnings report Monday morning. AIG lost a staggering $61.7 billion, the biggest quarterly loss for a US corporation in history. The company's total loss for 2008 was nearly $100 billion.

The *New York Times* reported, "rating agencies like Fitch Ratings and Standard & Poor's had been preparing to sharply downgrade AIG's credit ratings on Monday because of the record quarterly loss. That would have forced AIG to default on its debt, threatening to set off shock waves throughout the financial system as banks holding AIG derivatives contracts would probably demand cash collateral and other payments from AIG during a time when it has little to spare."

A joint statement from Treasury Secretary Timothy Geithner and Federal Reserve Chairman Ben Bernanke warned of the "systemic risk" AIG continued to pose and the "fragility of the markets," and said the failure of the company could do severe damage to companies, municipalities, pension funds and small businesses ensured by AIG.

AIG is one of the largest players in the global, unregulated market (estimated at $62 trillion) in credit default swaps—i.e., private contracts under which companies like AIG guarantee the debt, including mortgage-backed bonds, held by banks and other companies. Although it was allegedly an insurance company, AIG joined the speculative frenzy on Wall Street and paid vast sums to its top executives. When the housing bubble burst, financial institutions began demanding coverage for their losses. It quickly became clear that AIG could not pay.

"Essentially," Justin Fox,*Time* 's business and economics columnist wrote, "AIG got into the business of insuring much of the world's financial system against the consequences of a global financial meltdown. It turned out to be incapable of delivering on that insurance—no private company could deliver on it, which is one reason why AIG's business of selling credit default swaps was a scam. And so government has stepped in as the ultimate insurer."

Now, the company has turned into a financial black hole. Much of the government bailout money is channeled into other financial institutions and corporations that purchased AIG insurance, and AIG comes back looking for more.

Fed Chairman Bernanke and then-Treasury Secretary Henry Paulson, engineered the first bailout of AIG last September, pointing to the potentially "catastrophic" implications for the world financial system if the insurer failed. Goldman Sachs Group Inc.—which Paulson used to run—Société Générale SA, Deutsche Bank AG and Merrill Lynch & Co. were among the largest banks that bought swaps from AIG, according to insiders. The insurer reportedly handed over about $18.7 billion to financial firms in the three weeks after the September bailout.

The bailout then grew to involve a $60 billion loan, $40 billion capital injection in exchange for preferred shares and $50 billion to buy up liabilities tied to mortgage-backed securities the insurer owned or backed through swaps. In exchange, the government took over 80 percent of the company's shares.

Paulson appointed Edward Liddy—a former member of the Goldman Sachs board—to sell off AIG's failing units, restore profitability and repay the loans in two years. While Liddy initially said the loan was more than enough, he now says the company has used up to $38 billion of its $60 billion credit line. Potential buyers for its units have either turned away because of their own losses or paid far less than anticipated.

Liddy told NBC News that the company was "in much worse condition that I thought," adding, "The economy is worse. The financial markets are worse."

In addition to handing over an additional $30 billion from the Troubled Asset Relief Program or TARP, the bailout reduces interest payments that AIG has to pay on government loans. The Treasury will also convert its preferred shares—which are similar to a loan with high dividend payments—to a form of common stock. This puts the taxpayer funds at more risk if AIG fails because holders on such stock are among the last paid in a bankruptcy procedure.

AIG's $60 billion credit line will be reduced by $26 billion in exchange for stakes in American Life Insurance Company (ALICO) and American International Assurance Company Ltd. (AIA), two life insurance subsidiaries for which AIG has been unable to find a buyer.

The bailout of AIG has now far outstripped the $50 billion handout to Citigroup and $45 billion in public assets for Bank of America. "The government isn't necessarily finished providing support," the *Wall Street Journal* reported, noting that the Obama administration is "expected to continue assisting AIG as needed in order to help the company shrink and dispose of some of its businesses," including by providing financing to buyers interested in purchasing its assets.

Obama is continuing the same policy as his Republican predecessor by opening the public treasury to unlimited looting by the financial elite while providing nothing to the vast majority of the population who are suffering the devastating economic consequences of the avarice and recklessness of Wall Street.