Obama pay czar OKs $4 million raise for AIG executive

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As Wall Street prepares to announce some $30 billion in year-end bonuses—a near-record—it has been handed an additional bit of Christmas cheer from Kenneth Feinberg, the "special master for compensation" appointed by the Obama administration ostensibly to rein in bankers' pay.

On Monday, Feinberg sent a letter to Robert Benmosche, the CEO of insurance giant American International Group (AIG), informing Benmosche that he had approved his request for a raise in compensation of more than $4 million for one of the firm's top executives. Feinberg agreed that the executive should be given, over and above his base salary of $450,000, stock options with a current value of $3.26 million plus an additional annual incentive award of up to $1 million. In all, the executive will receive $4.71 million this year.

Feinberg, who last fall approved a $10.5 million compensation package for Benmosche, wrote that he had agreed to the 1,000 percent increase because the executive had reversed his earlier plans to leave the company. "In light of the fact that the specified employee will remain in the employ of AIG," Feinberg said, "it is appropriate to provide… long-term incentives to ensure that the employee contributes to AIG's long-term success and, ultimately, AIG's ability to repay taxpayers."

Feinberg added that the raise would make the executive's compensation comparable to that already granted to AIG's other top 25 executives.

Feinberg refused to name the executive, citing "privacy restrictions," and an AIG spokesman said the company would not disclose it either.

Feinberg's largesse is the latest and most blatant exposure of the fraudulent character of the Obama administration's supposed efforts to convince Wall Street to end its practice of awarding its top executives multi-million-dollar pay packages. Feinberg was appointed as an officer of the Treasury Department with a mandate to oversee compensation at seven firms that had received "exceptional" aid under the $700 billion Troubled Asset Relief Program (TARP) bank bailout.

His appointment was essentially a public relations move designed to placate public anger over Wall Street pay, especially at those firms that had received billions of dollars in taxpayer funds.

At the time, the firms under Feinberg's purview included two banks—Citigroup and Bank of America—as well as AIG, General Motors, Chrysler and the financial arms of the two auto companies. Since Feinberg's appointment, the banks have repaid their TARP loans in order to remove themselves from Feinberg's purview and the token restraints on executive pay and bank operations that were imposed as part of the government bailout.

AIG is the sole remaining financial firm under Feinberg's remit. It has received to date $182 billion in government assistance, and is 80 percent owned by the Treasury.

The insurance company became the focus of public outrage when it emerged last March that it had allotted hundreds of millions of dollars for bonuses and incentive payments to executives and traders. Included were top employees at the division whose speculation in derivatives and credit default swaps had brought the company to the point of collapse in the fall of 2008, and with it, the US and global financial system.

The administration and Obama personally intervened last March to scuttle bills in Congress that would have imposed surtaxes on Wall Street bonuses and to block any limits on executive pay.

Days later, Obama rejected recovery plans submitted by General Motors and Chrysler and demanded deeper cuts in auto workers' wages and benefits and more layoffs and plant closures in return for government loans.

At the time of the public furor over the AIG bonuses, the company announced that executives and traders at its financial products division had agreed to return $45 million of the $165 million they had been granted in retention bonuses. However, on Wednesday the *Washington Post*, citing a report by the special inspector general of TARP, reported that only $19 million has been given back.

Feinberg announced his decision on executive pay at the seven firms under his remit last October. He declared that he was limiting cash salaries for the top 25 executives at the companies to $500,000 (itself more than ten times the median pay for US workers). This, however, was an exercise in mass deception. Feinberg allowed the firms to offset declines in cash salaries with stock grants and other forms of compensation.

Even the $500,000 figure was fraudulent. NBC News reported at the time that 34 executives at AIG, Bank of America and Citigroup received more than $1 million in upfront cash, and the top compensation at the firms was between $9 million and $10.5 million.

The average pay for all 138 executives affected by Feinberg's ruling was $2.5 million.

Monday's windfall for AIG is among the more flagrant examples of the Obama administration's single-minded focus on boosting the profits and fortunes of the financial elite. However, it is less than a drop in the bucket compared to the vast sums being garnered by major financial firms as a result of the administration's policies.

On Tuesday, the *Wall Street Journal* reported that the yield curve—the difference between short-term and long-term interest rates on government bonds—hit a record Monday. Largely as a result of the Federal Reserve's policy of holding short-term interest rates at near-zero for "an extended period of time"—a policy which the Fed reiterated at its policy-making meeting last week—interest rates on long-term Treasuries are rising. This is because investors are selling their long-term US bonds in order to use cheap credit to invest in more risky and more lucrative corporate stocks and bonds, commodities and currency swings.

The record gap between short-term and long-term interest rates is a bonanza for the banks. As the *Journal* put it, "The gap is great for the banks, because they can borrow for the short-term at low rates and lend at higher long-term rates."

Also on Tuesday, *New York Times* financial columnist Andrew Ross Sorkin reported on the vast profits being generated for the biggest banks from the repayment of TARP loans. In recent weeks, Bank of America, Citigroup and Wells Fargo have all organized massive stock sales in order to raise cash to help repay their combined $90 billion in TARP liabilities.

Sorkin noted that more than $50 billion of new capital was raised as part of the payback effort, making December the biggest month in history for offerings, according to Thomson Reuters.

He wrote: "Here's what the post-bailout bonanza means for all the banks that helped find investors for the new shares: Bank of America's $19.3 billion offering generated $482 million in fees; Citigroup's $17 billion offering resulted in $425 million in fees; Wells Fargo's $12.2 billion offering led to $275.6 million in fees."

Sorkin cited Matthew Toole, director of the Deals Intelligence Unit of Thomson Reuters' Investment Banking Division, who has concluded that over the past two years, fees for share offerings among US financial firms have totaled $5.4 billion. That is a greater sum than the $4.8 billion raised over the previous 20 years.

Thus, the banks have made huge profits both from receiving taxpayer funds and from paying them back.

Sorkin also noted that the windfalls in underwriting fees in December will figure into the year-end bonuses awarded to investment bankers involved in the deals.

He quoted a banker who, he said, had a message for Obama's treasury secretary, Timothy Geithner. The message was, "Thank you."