US government undervaluing losses on AIG bailout

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The White House has sought to undervalue government losses from the 2008 bailout of failed Wall Street insurer AIG, according to a report issued Tuesday by Neil Barofsky, the inspector general of the Troubled Asset Relief Program.

Last month, the US Treasury Department cut its official estimates of its loss in the AIG bailout from $45 billion to $5 billion. The Treasury achieved this figure by changing the model used to evaluate the losses.

"This conduct has left Treasury vulnerable to charges that it has manipulated its methodology for calculating losses…as part of a multifaceted publicity campaign touting the positive aspects of TARP and emphasizing the reduction in anticipated losses," Barofsky wrote.

The bailout of AIG, which insured many of the toxic assets used for speculation by Wall Street banks and hedge funds, was only part of the vastly unpopular bailout of the banks under Bush and Obama. Much of the money handed to AIG found its way onto the balance sheets of Goldman Sachs and other institutions that had purchased insurance.

The US Treasury plans to transform its TARP investment in AIG by converting $49 billion worth of preferred shares into 1.7 billion shares of common stock. As a result of this swap, the government's ownership share in the company will jump from 79 percent to about 92 percent.

Barofsky said that the government's calculation of the value of its holdings do not present a valid picture of the Treasury's position, because so little of AIG's common stock is publicly traded. As a result, the US government will likely be unable to sell its stock in the company without dramatically reducing the price.

Barofsky's report makes a scathing assessment of the bank bailout two years after its inception, saying that it has "fallen woefully short" of its stated intention of providing economic relief to the population.

The report compares the economic hardship facing the American people to the bonanza bestowed on the biggest Wall Street banks, saying, "There is no question that the dramatic steps taken by Treasury and other Federal agencies through TARP and related programs were a success for Wall Street. Those actions have helped garner a swift and striking turnaround, accompanied by a return to profitability and seemingly ever-increasing executive bonuses."

The opening section of the report goes through each of the stated intentions of the bank bailout and shows how each of them have been completely swept aside in the interests of preserving the profitability of the banks.

While the bank bailout was sold to the American public as a means to get banks to increase lending to consumers and small businesses, the report notes that the bank bailout has failed "to 'increase lending,' with small businesses in particular unable to secure badly needed credit. Indeed, even now, overall lending continues to contract, despite the hundreds of billions of TARP dollars provided to banks with the express purpose to increase lending."

The further report presents a scathing denunciation of the Obama administration's mortgage modification program, saying that "the most specific of TARP's Main Street goals, 'preserving homeownership,' has so far fallen woefully short, with TARP's portion of the Administration's mortgage modification program yielding only approximately 207,000...ongoing permanent modifications since TARP's inception, a number that stands in stark contrast to the 5.5 million homes receiving foreclosure filings and more than 1.7 million homes that have been lost to foreclosure since January 2009."

While the Obama Administration initially estimated that 3 million people would receive assistance under the Home Affordable Modification Program (HAMP), only 495,898 people have thus far received permanent home mortgage modifications. This is less than one-twentieth the number of homes that real estate tracker realtytrac.com expects to be foreclosed by 2012.

Far from reversing the distress in the housing market, some types of foreclosure are now more prevalent than ever. The report notes that at the present rate, the number of bank repossessions will be 19 percent higher in 2010 than last year.

"Treasury's claim that 'every single person' who participates in Hamp gets 'a significant benefit' is either hopelessly out of touch with the real harm that has been inflicted on many families or a cynical attempt to define failure as success," the report concludes.

Barofsky's findings underscore the basic fact that the bank bailout, marketed by the Obama administration as a measure to alleviate popular economic hardship from the economic downturn, has served only to funnel hundreds of billions of dollars into the balance sheets of the banks.