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## Goldman's share of AIG bailout money draws fire

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By Paritosh Bansal - Analysis

NEW YORK (Reuters) - American International Group funneled over \$90 billion of taxpayer bailout funds to various U.S. and European banks, but the biggest beneficiary was politically connected Goldman Sachs Group Inc.

Suspicious of potential conflicts of interest and favoritism have been fueled by \$12.9 billion AIG paid to Goldman Sachs -- where then-Treasury Secretary Henry Paulson had previously worked as chief executive -- in the months after the insurer was rescued by the government last September.

Goldman, for its part, has insisted it did not need the bailout money because it was "always fully collateralized and hedged."

Long Wall Street's largest investment bank before it recently became a bank holding company, Goldman answered a series of questions from Reuters about the bailout funds.

"We can say that our notional exposure to AIG is a fraction of what it was at the time of the September bailout," Goldman spokesman Michael DuVally said.

Asked why Goldman Sachs took \$12.9 billion of taxpayer money if it was collateralized and hedged on its AIG positions, DuVally said it was because AIG was not allowed to fail, so Goldman did not get money from hedges that would have paid out if the insurer had collapsed. And, he said, under the terms of its contracts with AIG, Goldman was entitled to collateral.

DuVally also said the bank does extensive due diligence on all its counterparties.

How much Goldman and other counterparties received from AIG has been just one of several flashpoints over the taxpayer rescue of what was once the world's largest insurer.

AIG has also infuriated politicians -- including U.S. President Barack Obama - with its plan to pay \$165 million in bonuses to employees at the unit at the heart of its problems.

Still, the payments to counterparties like Goldman Sachs dwarfed the bonuses, and some experts contend that these companies should have been made to share some of the losses resulting from the giant insurance firm's near collapse.

"People see that the guys that ruined AIG are getting paid more money, and that creates outrage," said Porter Stansberry, managing director of Stansberry & Associates Investment Research. "If you want to be outraged, be outraged that the counterparties got paid out full value."

Goldman was not the only large bank with exposure to AIG. The list of counterparties that AIG disclosed on Sunday included others that got large sums. Goldman was followed by Societe Generale with \$11.9 billion, Deutsche Bank with \$11.8 billion and Barclays PLC with \$8.5 billion.

Moreover, the AIG disclosures are still incomplete in that they do not include payments to the banks since December 31.

"We are looking at a small piece of it right here. So what is the total exposure? That's the question. And then the issue is, well, if that was wiped out what would it do to Goldman's capital?" said Campbell Harvey, a finance professor at Duke University.

"It is obvious that firms underestimated the counterparty risk. That was their mistake," Harvey said. "Yet they are getting bailouts of U.S. taxpayer money. Why should we pay for their mistake?"

In an editorial on Tuesday, the Wall Street Journal pointed to Goldman's claim that "all of its AIG bets were adequately hedged and that it needed no 'bailout.'"

"Why take \$13 billion then? This needless cover-up is one reason Americans are getting angrier as they wonder if Washington is lying to them about these bailouts," the Journal said.

The bailout has stirred resentment not just in the U.S. Congress, but on Wall Street, where investors have speculated that Goldman and its connections helped it get a better deal.

In recent years, many former Goldman executives have moved into government. Paulson left Goldman in 2006 as chief executive. The chairman of the New York Federal Reserve is former Goldman Chairman Steve Friedman.

"The person that should be subpoenaed is Hank Paulson. How do you go from running Goldman Sachs in '05 and '06 and making all of these bets with AIG's financial products unit and then end up in the government guaranteeing those bets and not have a conflict of interest?" Stansberry asked.

DuVally said Goldman Sachs was not party to any discussions about the bailout of AIG.

(Reporting by Paritosh Bansal; Additional reporting by Lilla Zuill and Kevin Drawbaugh; Editing by Gary Hill)

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