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Business

New Losses Spur Questions About AIG's Health

by Jim Zarroli

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[All Things Considered](#), December 10, 2008 · New questions are being raised about the financial position of the insurance giant American International Group.

The company has already received a massive federal bailout worth as much as \$150 billion, but several published reports Wednesday have said AIG faces an additional \$10 billion in losses not covered by the bailout.

\$10 Billion Owed

The information was included in a federal filing and was reported by the *Wall Street Journal*, though AIG says it was no secret and that it had already been publicly disclosed. The *Journal* said AIG had made nearly \$10 billion in a certain kind of derivatives trade. Essentially, it bet on the direction the market would take. Those bets have now gone sour, and AIG owes nearly \$10 billion to some of Wall Street's biggest banks.

AIG already owed a lot of money and is getting federal help to pay it back.

Christopher Whalen, managing director of Institutional Risk Analytics, says these trades appear to be different from other AIG trades.

"These aren't even securities. These are just derivative contracts," Whalen says. "There's nothing there. These are just bets that are being honored."

Seeking A Solution

Until now, Whalen says, the federal government has been helping out AIG by buying up some of the securities that underlie a lot of the bad debt. But in this case there are no securities. These trades were a big, speculative bet. There is nothing for the government to buy, and AIG will have to come up with another way to pay the debts off.

"I don't think AIG can work their way out of this problem," Whalen says. "In other words, the wagers that are on their books are all now going to go into the money and they don't have the funding. *Voila!* We just found another \$9.7 billion in trades that don't have funding."

AIG says it is looking for ways to handle the debts. A company spokesman said AIG still has plenty of capacity under the federal bailout. Since September, the government has committed \$150 billion through loans and stock purchases.

The spokesman said he did not expect these latest trades would require any additional money from taxpayers. Still, the news reports of the trades generated much criticism.

More Problems?

Campbell Harvey, professor of finance at Duke University, says the trades raise two big problems regarding the government's bailout of AIG. First, he says, nobody really understands the full scope of the company's losses.

"It shows that we didn't really understand what we were buying when we went in and dropped \$150 billion, and No. 2, it's the cockroach problem — that you see this \$10 billion and you wonder how much is behind the walls that we don't know about yet."

That view is echoed by Janet Tavakoli, a consultant who specializes in structured finance. She says the nature of AIG's losses is still poorly understood, in part because the company has not been transparent enough about its holdings.

"Given the mishaps now that AIG's management have made since the bailout, it just seems that they haven't provided the level of detail and disclosure they should have provided," Tavakoli says. "To have a surprise like this is very disturbing, and one wonders why the managers at AIG are remaining in their place."

Tavakoli says the news of these trades underscores the murky nature of AIG's finances.

It also suggests that the reverberations from the company's collapse could be felt for some time to come.

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And just yesterday there was an article they released about the work incentive payments they are processing to keep the upper 130 executives happy and with the company. These ranged from \$92,500 up to one individual being given 4 million.

These executive cash payments- in addition to the hundreds of thousands each weekend for their two so-called conference meetings held in two of the ritziest luxury resorts in the nation -

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... it's a scary set of circumstances!

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Ireally upsets me that these creative fincianiers at AIG along with the federal reserve and wall street have so miss managed our nations financies. I believe we should have the FBI arrest all of them on fraud. They should be tried based on asi month sentence given Martha Stewart for what a \$150,000 if they loss a \$ 10 billion maybe its 6,000 years. They love spas so sin city Nevada has a sack and crack waxing tape auibles and sell to provide monies to soup kitchens. Now they all believe in exporting our jobs to Mexico and china we should let them serve their sentences overseas or in a regular cell in Mexico with no pardons. If they get 100 years then keep their coffin till the full sentence is served and release it to their great grand children after the full time srved. We should demand this of our congress to open an investagation from the dot.com bubble thru the subprime collapse.

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