Billions of AIG's federal aid went to foreign banks

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Enlarge By Mark Lennihan, AP

A man passes by an American International Group office building Monday in New York City. AIG used billions in federal aid to pay foreign banks, highlighting the expanse of the global financial system.

By Pallavi Gogoi and Barbara Hagenbaugh, USA TODAY

Lost in the hoopla surrounding news that $165 million in bonuses were paid out to executives at American International Group (AIG) is a bigger, sobering question: Did the U.S. government cover for losses at foreign banks?

AIG disclosed Sunday the names of banks and entities that received a total of $105 billion of its bailout payments made from September through December. Some of the leading recipients of American taxpayer money are France's Societe Generale, $11.9 billion; Deutsche Bank of Germany, $11.8 billion; and Barclays of Britain, $8.5 billion.

BONUS FUROR: Critics blast AIG as flap escalates

The expansive list of international entities — including UBS in Switzerland and Banco Santander in Spain — shows the broad tentacles of AIG's dealings and why the U.S. government believed that saving AIG was important to the global financial system.

"It shows how widespread this interlocking web of financial contracts was," says Raymond Hill, who teaches finance at the Goizueta Business School. "And without government intervention, that web would have collapsed, creating havoc in the global financial system."

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However, lawmakers question why other countries didn't get involved in bailing out this wide network of global institutions. "The U.S. cannot bail out the financial system of the world," says Rep. Carolyn Maloney, D-N.Y., chairwoman of the Joint Economic Committee. "Other nations have to be part of the solution in securing the viability of their institutions that are too big to fail."

However, Duke University finance professor Campbell Harvey says it's better that the U.S. take care of its own companies, even if that means financial firms abroad are benefiting.

"If we start asking European governments to kick in for AIG, then (they will) ask us to pitch into their problems, which are way worse than ours," he says.

At the heart of these large payments and losses is AIG's financial products unit, which sold insurance to protect dozens of banks against default on all kinds of debt and securities. AIG then invested the premiums in residential mortgage-backed securities, the market for which has collapsed since the real estate downturn.

WHERE MUCH OF AIG'S BAILOUT MONEY WENT

American International Group has used federal bailout funds to pay about $105 billion it owed to U.S. municipalities and U.S. European financial companies, starting when it received its first bailout last September through Dec. 31. Companies receiving the largest amounts, in billions:

Bank	Amount	Based
Goldman Sachs	**$12.9**	USA
Bank of America/Merrill Lynch	**$12.0**	USA
Societe Generale	**$11.9**	France
Deutsche Bank	**$11.8**	Germany
Barclays	**$8.5**	USA
UBS	**$5.0**	Switzerland
BNP Paribas	**$4.9**	France
HSBC Holdings	**$3.5**	U.K.
Dresdner	**$2.6**	Germany
Total payments to top 10	**$73.1**	

Source: AIG

GUARANTEES TO MUNICIPALITIES

AIG paid $12.1 billion to municipalities in these states to satisfy its obligations under guaranteed investment agreements (GIAs) with them.

State	Amount (billions)
California	$1.02
Virginia	$1.01
Hawaii	$0.77

Ohio	$0.49
Georgia	$0.41
Colorado	$0.36
Illinois	$0.35
Massachusetts	$0.34
Kentucky	$0.29
Oregon	$0.27
Delaware	$0.26
New York	$0.21
New Jersey	$0.21
Mississippi	$0.18
Washington	$0.17
Pennsylvania	$0.15
Florida	$0.15
Rhode Island	$0.14
Arizona	$0.12
Texas	$0.10
Top 20 total	$7.00
Other	$5.10
Source: AIG	

When AIG originally sold the insurance, it had a AAA credit rating. However, everything started to unwind on Sept. 15, when the major credit-rating agencies downgraded AIG.

The lower credit rating meant AIG had to come up with tens of billions of dollars in collateral for the extra risk other banks were taking buying its insurance. And AIG didn't have the cash for the many requests for collateral it faced.

So, the U.S. government came up with the cash, four times for a total of $180 billion, and took a 78.9% stake in the company.

The amount AIG has paid is substantial — Goldman Sachs received a total of $12.9 billion, and the Bank of America/Merrill Lynch combo received $12 billion — and some are wondering why the government didn't let the banks eat those losses.

"Would taking a $13 billion loss have wiped out Goldman Sachs? I don't think so," says Peter Cohan, president of management consultant Peter S. Cohan & Associates. "This whole argument that unless the taxpayer bails them out, these large banks would collapse seems like a whole lot of crock to me."

Duke's Harvey says repeated taxpayer involvement has created too much uncertainty about when the government will say enough is enough.

But David Smith, associate professor of commerce at the University of Virginia, says the release of the information shows how widespread the losses from an AIG failure could have been and bolsters the case that the Fed and Treasury needed to get involved.

"It's a piece of evidence to suggest that if the government turned its back on supporting AIG's obligations that it would have meant big losses," he says. "Some of the … largest institutions were in danger of suffering even bigger losses if we didn't do anything for AIG."

AIG CEO Edward Liddy has said he heads a global franchise that is symbolic of the interlinked global financial system. "Nothing was to be gained — and there was much to lose — if AIG were not allowed to develop a global restructuring plan to resolve our financial difficulties," said Liddy, in a speech to the Hong Kong General Chamber of Commerce in December.

Now, he will have to try to explain whether that's true and more, during Wednesday's hearing before a House subcommittee.

Part of the taxpayers' money, or about $12 billion, also went to municipalities of several different U.S. states. That's because AIG sold guaranteed investment contracts, which guarantee a fixed rate of return.

Many municipal bond issuers don't use the entire proceeds of their bonds for projects and enter into these contracts to earn that rate of return.

This confirmed worries that municipalities might have to face losses because of AIG's shaky finances.

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personally,i think AIG should have been made to enter " BANKRUPTCY " where a court could have decided where the bailout money went.it's amazing how many " CONSERVATIVES " that cheered for