

Geithner says AIG Bailout 'Complicated'

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Geithner says AIG bailout 'complicated' [The Washington Times] By Sean Lengell, The Washington Times

May 21--Treasury Secretary Timothy F. Geithner told a Senate panel Wednesday that the economy is showing convincing signs of a comeback but government intervention still is needed to help struggling financial institutions, including American International Group Inc.

Mr. Geithner, testifying before the Senate Banking, Housing and Urban Affairs Committee, said bailing out the troubled insurance giant "proved much more complicated, much more risk than people thought."

The federal government holds about 80 percent of AIG's assets and has injected \$70 billion into the company from the \$700 billion Troubled Asset Relief Program (TARP).

The key to stabilizing AIG, the secretary said, is to shed risky business ventures and investments from the company.

"We want that to go as quickly as possible, but to be fair, I think the management and board of this firm are finding it incredibly difficult to unwind and disentangle those basic companies," he said. "That's what's causing the delay."

The committee's chairman, Christopher J. Dodd, Connecticut Democrat, and its top Republican, Sen. Richard C. Shelby of Alabama, complained that the government was unnecessarily paying the full value to AIG creditors.

"This is a black hole," Mr. Shelby said of AIG. "We keep pumping billions of dollars into AIG ... and it's still hemorrhaging money."

When Mr. Geithner said the government didn't have the authority to negotiate a reduction in the value of those claims, Mr. Dodd responded that "we need a better answer on this."

Asked by Mr. Shelby whether the federal government would still have a financial interest in AIG a year from now, the secretary said he wasn't optimistic the government could extricate itself anytime soon.

"In some parts of the financial system, it's going to take a longer period of time than that -- probably in AIG, too," he said.

Mr. Geithner defended the government's use of taxpayer money to help bail out Wall Street, saying, "Crises this severe don't burn themselves out -- to fix them requires the action of government."

The secretary said about \$100 billion in TARP money remains uncommitted and that estimates show that financial institutions will repay \$25 billion of their government rescue funds over the coming year.

Nine of the nation's biggest 19 banks without shortfalls also have raised about \$8 billion that they will use to repay the government.

But Mr. Geithner added that he wasn't sure whether more taxpayer money would be needed to help stabilize the financial markets.

"But at this point, [I] have no plans to do so," he said.

Mr. Geithner also said stronger protections for consumers are needed against manipulation and deception in the financial markets.

"We are examining whether we should change the oversight structure so that we have better enforcement of stronger rules," he said.

Banks have been acting much more conservatively and taking less risks in recent months -- a positive step necessary to help restore stability to the Wall Street, Mr. Geithner said. But as the economy improves and demand for credit increases, banks must be encouraged to continue lending money. Lending has in part been hindered by the amount of real estate loans and securities on banks' balance sheets.

To encourage banks to continue lending, Mr. Geithner said a public-private partnership announced in March to

help banks shed their bad assets will be running in the next few weeks.

The program would combine up to \$100 billion in government funds with private investments in hopes of building a purchasing pool of up to \$1 trillion. Treasury has received applications from more than 100 potential fund managers to help run the program.

The program was announced March 23, and some lawmakers have questioned why the program is not yet running.

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