RSC Republican Study Committee
Financial Services Working Group
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Geithnergate and Bank Fees: 2010 Looks Like More of the Same

As President of the NY Fed, did Geithner orchestrate the bailout of AIG counterparties, which included foreign banks?

Per *WSJ*, "The New York Fed urged AIG to limit disclosure of its deal to buy out derivative trading partners at 100 cents on the dollar. Mr. Geithner was president of the New York Fed when it began sending what has become $182.3 billion in taxpayer assistance to AIG in September 2008. Much of this money was used to meet collateral calls from big banks that had bought AIG's credit default swaps. Given the sweet deal and the fact that Mr. Geithner sought to keep secret the identities of the beneficiaries, logic would suggest that the AIG intervention was intended as a bailout for these counterparties." Geithner has previously stated, "the financial condition of the counterparties was not a relevant factor" in the decision to bail out AIG.

Talking Points

- The American people are tired of bailouts and lack of transparency from their government.
- As President of the NY Fed, Treasury Secretary Geithner orchestrated an undercover bailout of AIG counterparties using taxpayer dollars.
- The American people demand answers to questions about this issue, including: Did Geithner intentionally use the AIG bailout to bail out other banks, including foreign banks? Why does he think that he is not accountable to the American public?

President Obama Calls for More Assessments on Banks; Garrett Warns of Effect on Consumers

President Obama's budget is likely to include a fee on banks designed to recoup some of the cost taxpayers incurred in the bailout. Specifically, Obama is proposing $120 billion worth of bank fees in the coming year's budget.

Garrett response: "It is premature to be talking about new taxes on the financial services industry. Every dollar levied in taxes would directly impact available dollars to lend. Bad ideas, when implemented, have negative consequences. The consequence of this bad idea would be to exacerbate the worst credit crunch in a generation, while doing nothing about Washington's debilitating spending problem – which is the number one issue Americans are demanding we address."

Talking Points

- While millions of Americans are unemployed, the Administration continues to consider job-killing initiatives that will further cripple the economy by increasing fees passed on to consumers and small businesses, in addition to reducing consumer credit.
- The $120 billion worth of fees imposed on banks through this bill that could be passed on to small businesses and will in turn limit a company's ability to create jobs, thus prolonging and potentially deepening the current recession.
- Americans want an end to the financial crisis. History has shown that the most effective way to reinvigorate the economy and spur economic growth is to ensure that job creators face a lower tax and regulatory burden. The proposed bank fees will do just the opposite!

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The Geithner AIG Story

Timothy Geithner is back in piñata mode, with House Oversight Chairman Edolphus Towns asking him to testify next week about bailout giant AIG. By all means Members should swing away at the Treasury Secretary, but only if they focus on the right questions.

The trigger for the Towns hearing is the release of emails between the Federal Reserve Bank of New York and AIG in November and December 2008. The New York Fed urged AIG to limit disclosure of its deal to buy out derivative trading partners at 100 cents on the dollar. But since AIG went ahead and disclosed it anyway, this line of inquiry doesn't get to the heart of the taxpayer interest.

Likewise, asking if Mr. Geithner helped write the emails will allow him to continue avoiding the bigger questions: Why did he believe AIG could not fail? Why should he receive more authority to declare firms systemically important, when he won't fully explain his previous multibillion-dollar judgments in the name of countering "systemic risk"?

Mr. Geithner was president of the New York Fed when it began sending what has become $182.3 billion in taxpayer assistance to AIG in September 2008. Much of this money was used to meet collateral calls from big banks that had bought AIG's credit default swaps. AIG had resisted handing over more collateral. But once Mr. Geithner was in charge of AIG, the cash flowed freely to these bank counterparties.

The Fed and AIG ultimately bought the underlying securities at par. This was not only much more than the counterparties might have received from a bankrupt AIG, but even a healthy AIG would never have handed over so much cash in the midst of a panic in which cash was king. Mr. Geithner's New York Fed demanded the 100-cents on the dollar deal for these counterparties, and it demanded that their identities be kept secret. The Journal nonetheless reported this sweet deal and the names of some beneficiaries, including Goldman Sachs, in early November 2008, but taxpayers had to wait months before AIG finally released the full story.

Given the sweet deal and the fact that Mr. Geithner sought to keep secret the identities of the beneficiaries, logic would suggest that the AIG intervention was intended as a bailout for these counterparties. Supporting this conclusion is the fact that Mr. Geithner has sold his plan to regulate derivatives as a way to prevent such problems in the future. Yet when asked directly by the inspector general for the Troubled Asset Relief Program why he opted to buy out the counterparties at par, Mr. Geithner said "the financial condition of the counterparties was not a relevant factor."

Then last November, he suggested that the systemic risk was in AIG's traditional insurance business. "AIG was providing a range of insurance products to households across the country. And if AIG had defaulted, you would have seen a downgrade leading to the liquidation and failure of a set of insurance contracts that touched Americans across this country and, of course, savers around the world," he said. So which was it?

Taxpayers also still haven't been told why there couldn't have been any sunshine on Mr. Geithner's beloved AIG counterparties. If some of them really would have failed, with systemic consequences, why not announce that they were all getting a deal to bolster liquidity and allow them to resume lending? That is exactly what regulators had just done in October 2008 by naming recipients of TARP capital injections.

On the other hand, if the counterparties weren't the systemic risk, then what's the argument for regulating derivatives?

The evidence builds that AIG's "systemic risk" wasn't a mathematical answer to a rigorous and thoughtful review of data, but rather a seat-of-the-pants judgment by regulators in a panic. If that is the case, someone should ask Mr. Geithner why the American people should give him even more authority to make more such judgments from his hip pocket—with little public scrutiny.

Under the House regulatory reform, Mr. Geithner would chair a new Financial Services Oversight Council. The council could declare virtually any company in America a systemic risk, making them eligible for intervention on the taxpayer's dime. The law firm Davis Polk reports that since this council is not an agency, it will not be subject to the Administrative Procedure Act, the Freedom of Information Act or the Sunshine Act, among other laws intended to allow citizens to scrutinize government.

It's difficult to learn and apply the lessons of AIG because the New York Fed has done so much to conceal them. Mr. Towns appears to be getting closer to the truth, deciding yesterday to issue subpoenas focused on the New York Fed's decision-making, as opposed to whatever it told AIG to say in public. Let's hope lawmakers explore what the "systemic risk" actually was—and why Mr. Geithner should get nearly open-ended power to define it again.

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