

US congressional panel attacks AIG rescue

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A congressional panel on Wednesday attacked the US government's rescue of **AIG** in 2008 and said the \$180bn-plus bail-out of the stricken insurer continued to have a "poisonous" effect on capital markets.

The report underlines the **continuing political backlash** at a rescue that put billions of dollars of taxpayers' money at risk and triggered accusations that the government had helped Wall Street at the expense of Main Street.

The report by the Congressional Oversight Panel, which was created in 2008 to review the financial bail-out, said the government could have acted earlier and more aggressively to secure a private rescue of AIG.

By the time the government tried to save AIG in September 2008, options had become limited, the report argues.

The government then put the onus of rescuing AIG on two banks, **JPMorgan Chase** and **Goldman Sachs**, both of which had "severe conflicts of interest as they would have been the largest beneficiaries of the taxpayer rescue", the panel says.

The panel said AIG had a "poisonous" effect on capital markets because it confirmed the perception that some companies were "too big too fail" and would always receive government help when in trouble.

The report suggests the government should have offered "to extend credit to AIG only on condition that AIG negotiate discounts with its financial counterparties".

US Treasury and Federal Reserve officials have said that such a discount on its obligations would have resulted in an instant ratings downgrade, which would have precipitated a run on AIG.

The Treasury said the report "overlooks the basic fact that the global economy was on the brink of collapse and there were only hours in which to make critical decisions. The choices and tools available to the government were extremely limited and the potential outcomes were deeply uncertain".

The Federal Reserve said: "We respectfully disagree with the view that there were any better alternatives that were workable in the extreme circumstances of the time – in the middle of the worst financial panic in modern history."

It added: "It is clear that the nation urgently needs a regulatory framework and resolution regime that would give policymakers much better tools for dealing with such situations in the future."

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