HOUSE COMMITTEE ON
OVERSIGHT & GOVERNMENT REFORM

OPENING STATEMENT OF
CHAIRMAN EDOLPHUS TOWNS

AIG Bonuses:
Audit Report of the Special Inspector General
For TARP

October 14, 2009

Good morning and thank you all for being here.

Just over a year ago the US economy lurched toward near ruin. Venerable financial institutions staggered toward collapse and the market was in freefall.

Americans were stunned as their savings disappeared overnight, the value of their homes plummeted and their jobs disappeared.

To save the economy from going from recession to depression, the Federal Government launched the largest bailout of private companies in history. America's leading financial firms were on life-support when the Treasury Department injected them with hundreds of billions of dollars of taxpayer money.

AIG, once the largest insurance company in America, became the single largest recipient of bailout dollars. AIG was the victim of one of its own divisions - AIG Financial

Products - which engaged in the risky and unregulated trading that many blame for the company's collapse.

The American taxpayers came to the rescue with an $85 billion bailout of AIG last September. That was followed by more money in October, more again in November and still more in March of this year. In the end, the federal government had committed $180 billion dollars to save AIG.

Americans were justifiably outraged when they learned shortly thereafter that AIG was paying $165 million in bonuses to executives at the very division that caused the collapse of the company.

But even that figure pales before what the Special Inspector General learned in the course of his audit, which he is releasing at our hearing today.

Not long after the last Administration had shoveled $85 billion into this failing giant, Federal Reserve officials learned that AIG units planned to distribute a combined total of **$1.75 billion** in bonuses and other extraordinary compensation.

What is the justification for giving bonuses to people who drove their own firm off a cliff and very nearly crashed the US economy? Wasn't there something seriously out whack here?

It turns out it wasn't always that way at AIG. The SIGTARP's audit found that AIG's compensation used to be weighted toward long-term incentives that were payable only at retirement. In other words, they used the classic "golden handcuffs."

But in 2007, when losses began to mount, AIG's new management decided to "update" their compensation plans. The golden handcuffs were replaced by golden envelopes. The era of instant gratification had arrived at AIG. Long-term incentives were rejected in favor of short-term gains.

Don't get me wrong - Americans don't resent people who make a lot of money. We all want to make money.

But what infuriates people is when bosses at bailed out companies – virtual wards of the state - continue to rake in millions – in effect, *our millions.* It just doesn't seem right that the people who caused this tragedy should be so richly rewarded.

Unfortunately, this is still very much an issue. AIG's current bonus proposal is under review by the Treasury Department's Special Master, Ken Feinberg. We will be hearing from Mr. Feinberg two weeks from now at our second hearing on executive compensation.

Today, we welcome back Special Inspector General Neil Barofsky who just completed his audit of AIG compensation.

Perhaps today we will shed additional light on what many American taxpayers are asking:

- Why didn't the federal government impose pay concessions on bailed out companies?

- Why were huge bonuses paid to executives of firms that would now be bankrupt, but for a taxpayer bailout?

- How much more in lavish bonuses will the American taxpayer be required to foot?

- What have we learned about executive compensation and corporate performance from our experience with AIG?

Again, I want to thank Mr. Barofsky for appearing before us today and I look forward to his testimony.

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