Before the United States House of Representatives
Committee on Oversight and Government Reform

Statement of Maurice R. Greenberg

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Chairman Towns, Ranking Member Issa, and Members of the Committee, good morning. I am the Chairman and Chief Executive Officer of C.V. Starr & Co., Inc. and the former Chairman and Chief Executive Officer of American International Group, Inc. ("AIG"). I appreciate the opportunity to share with you my thoughts on how best to manage AIG and structure the government's assistance to ensure that tens of billions of dollars are repaid to the American taxpayer.

In the late 1960s, I became both a founder and the first CEO of AIG, which at the time was a brand new company. I led AIG for almost four decades until my retirement in March 2005. During that time, AIG grew from a modest enterprise into the largest and most successful insurance company in the world, and one of the largest companies in the world in any sector. Its market capitalization increased 40,000 percent between 1969, when AIG went public, and 2004, my last full year as Chairman and CEO.

By the time I left AIG, AIG had become one of the most widely held stocks in the United States. It had a market capitalization of approximately $170 billion and its stock traded at about $64 a share. AIG's net income per employee was over $100,000. The company operated in 130 countries and employed approximately 92,000 people. It was a great place to work, and it made significant contributions to the United States and to local communities here and abroad.

AIG had a unique culture when I was its CEO, particularly in comparison with the way many large public companies operate today. We had comprehensive and conservative risk-management structures and procedures. Neither I nor other members of my senior management team had employment contracts. I received no severance package in connection with my retirement, and I never sold a single share of AIG stock during the decades that I served as CEO (although I did contribute tens of millions of dollars in stock I owned to a family foundation to be used for charitable purposes). During my tenure, AIG had a performance-based compensation system that encouraged employees to contribute to the long-term growth of the company.

The Government's Bailout of AIG

Shortly after AIG first received federal assistance in September 2008, former Treasury Secretary Hank Paulson went on "Meet the Press" to reveal that the government's intention was to liquidate AIG. That intention manifested itself through onerous loan terms that included a two-year repayment period and an interest rate in year one of around 14%; the idea was to sell off valuable parts of AIG immediately to pay off the government in full in two short years. The current management of AIG was installed by Secretary Paulson for this purpose.

That plan has failed. A successful liquidation is impossible in the present economic climate, since buyers for AIG assets at fair values simply do not exist at this time. Fire-sale prices will bring taxpayers, who now own almost eighty percent of AIG, only pennies on the dollar for their investment in AIG. The largest asset sale to date took place at a fraction of the asset's purchase price and at a small multiple of book value.

That asset, Hartford Steam Boiler, was sold to a foreign company, meaning that many U.S.-based jobs may ultimately find their way overseas.

Moreover, the failed plan ignored the key value driver of AIG: Its people. AIG is nothing without its people – their drive, intellect, experience, innovation and relationships. There are over 100,000 people globally who make enormous contributions to the firm everyday. Since the day the Treasury announced its plan to liquidate AIG, value has been destroyed because AIG's people and their relationships -- AIG's business -- are leaving. The evidence is overwhelming and indisputable that the American taxpayer is an investor in a steadily diminishing asset.

The plan has also been highly controversial and in some respects downright puzzling. Approximately $50 billion of taxpayer cash has been paid to U.S. and foreign financial firms who were AIG's counterparties in its credit default swap (CDS) business, and another $44 billion was paid over to counterparties in the securities lending business. The cash payments to credit default swap counterparties were made to support collateral requirements and to purchase underlying subprime-linked securities at par.

After the payments were made, some of the largest CDS counterparties said that their exposure to AIG was hedged and they would not have incurred material losses if cash payments had not been made. Moreover, the head of the Office of Thrift Supervision testified before the Congress last month that AIG had not realized any losses on its CDS portfolio.

These cash payments to CDS counterparties should never have occurred. It would have been more beneficial for the American taxpayer if the federal government had walled off AIG Financial Products (AIGFP), the unit primarily responsible for the

CDS obligations, and provided guarantees to AIGFP's counterparties rather than putting up billions of dollars in cash collateral to those counterparties. Guarantees would have sufficed. The guarantees would have been similar to those put in place at Citigroup to ring-fence toxic assets destined for Citi's "bad bank."

It is clear that the current approach has not worked, and cannot work in today's environment. The government recognized that its approach was not working when it twice changed the terms and structure of AIG's borrowing arrangements. More changes are needed, starting with the basic premises on which federal assistance rests.

A Better Approach

AIG's problem was a liquidity problem, not a solvency problem. In such circumstances, the goal of government should be to provide temporary liquidity to save jobs and keep the gears of the financial system operating smoothly. The goal of government should not be to liquidate large companies that have demonstrated that they can succeed if properly managed; it should be to restore them so that they can be employers and taxpayers.

We have the opportunity to follow a different course that will both preserve tens of thousands of American jobs and better ensure that U.S. taxpayers are repaid. The way to do this is to abandon the liquidation approach and focus instead on rebuilding AIG so that it is better positioned to pay back the taxpayer.

In contrast to current approach, my approach relies on government guarantees and long-term government-funded debt, and encourages third-party capital rather than relying on government ownership. Most important, it requires AIG to continue operating and building its core insurance businesses as the mechanism for paying back the government

loans over time. To put it more simply, the current, failed approach involved the systematic dismantling of AIG. Among many other problems, that is an insurmountable problem for morale. Employees do not want to remain in a company being liquidated; they will simply move to competitors and take business with them. (AIA and ALICO are good examples.) My approach focuses on reconstructing and sustaining AIG so that it will in the future be a healthy and vibrant company once again -- paying taxes, being a viable employer, and servicing its debt, including its taxpayer-funded debt.

With those broad principles in mind, I would like to offer an alternate proposal. (Having left AIG over four years ago, my proposal is of course based on incomplete information about the current state of the company.) The ten key components of my proposal include:

1. Eliminate taxpayer-funded indebtedness where possible, and replace it with guarantees. This would be particularly relevant for any of AIG's remaining CDS exposure.
2. Where assets are transferred to the Treasury or Federal Reserve (through the government-controlled Maiden Lane entities) in exchange for certain loans that have been made, provide appropriate cancellation of indebtedness for the value of assets transferred, including a reasonable assumption for recovery value.
3. Extend the maturity of all remaining indebtedness to a 20-year term.
4. Reduce the rate on all remaining indebtedness to 5%, consistent with TARP investments made in the banking sector.

5. Reduce the government ownership to 15% common equity, again consistent with TARP investments, and a necessary step to encouraging private capital to replace taxpayer capital over time.
6. Stop all asset sales for core insurance properties, income from which is necessary to pay back taxpayers, including the planned transfer of AIA and ALICO to the federal government.
7. Ring-fence AIGFP and securities lending through a government controlled entity that would manage the run-off of those businesses.
8. Inject new equity capital in the form of newly issued common stock and through a rights offering to existing shareholders, with a minimum of $30 billion of new capital. The reduction of the government's ownership to 15% would make this possible.
9. Pressure should be applied to CDS counterparties to provide some of this new equity capital. These CDS counterparties should contribute back to AIG a portion of the over $100 billion in taxpayer money that has been paid out to them since September 2008, and would become shareholders of the newly constituted AIG in return. They would have a keen interest as shareholders in not only paying back the government loans, but in building the value of AIG and running it with proper risk controls -- objectives that are aligned with the interests of the Treasury, the Federal Reserve and American taxpayers.
10. Install a new board and management team with the right incentives to rebuild AIG and repay the taxpayer over the long term. The combination of short-term

oriented managers and advisors hired merely to sell assets has demonstrably failed.

AIG's Prospects

AIG's current CEO testified last month before a House Financial Services subcommittee that AIG's "overall structure is too complex, too unwieldy and too opaque for its component businesses to be well managed as one entity." That statement is meant to provide justification for the failed approach of liquidating AIG, but it is contradicted by the historical record. AIG is not too big to be managed; it is too big to be managed poorly. AIG's history demonstrates that its businesses can be highly successful if properly managed, and managing AIG properly is the only way to ensure that the American taxpayer will be repaid.

AIG has a deeply diversified earnings base. That was no accident; it was a conscious part of our approach to risk management when I and like-minded people managed AIG.

AIG first successfully diversified within the insurance industry. We created innovative products, such as directors and officers liability insurance, kidnap/ransom insurance and environmental protection insurance, and built a team of skilled underwriters who were capable of assessing and pricing risk. No one had offered these products before, so one could not write these policies out of a manual.

AIG then diversified internationally. AIG opened new markets in places like Korea, China and Japan. We operated behind the Iron Curtain in places like Hungary, Romania and Poland long before the Berlin Wall fell. We were the first foreign company to write life insurance policies in Japan and other places in Asia. It was all part of a

strategy to promote diversified growth. Along the way, we helped open new markets for U.S. businesses and created new products that enabled U.S. and multinational companies to grow and prosper.

Following its international expansion, AIG began looking for business opportunities that could take advantage of AIG's presence in many countries and its superior credit rating. To further diversify AIG's earnings base, we began finance operations in places including Switzerland, Hong Kong, Thailand, Argentina, the Philippines and Poland. AIGFP was created in 1987 and the International Lease Financing Corporation (ILFC) was acquired in 1990.

From 1987 to 2004, my last full year at AIG, AIGFP contributed over $5 billion to AIG's pre-tax income, was subject to numerous risk controls by AIG's senior management, and conducted its business largely on a "hedged" basis. Massive losses at AIGFP in 2007 and 2008 resulted significantly from a shift in the way the unit did business after I left the company in spring 2005. One of the most important changes related to the loss of AIG's AAA credit rating after my retirement. With the loss of that superior rating, AIG was forced to provide new or additional collateral for the benefit of its counterparties in credit default swaps. At that point, it would have been logical to exit or reduce its business of writing credit default swaps, because of the risk AIG then faced of having to post billions of dollars in additional collateral. AIG even disclosed this risk in its SEC filings starting in 2005.

Instead, AIG ramped up its credit default swap business during the remainder of 2005 and into the next year, ignoring its own disclosure to the SEC. AIGFP reportedly wrote as many credit default swaps on collateralized debt obligations, or CDOs, in the

nine months following my departure as it had written in the entire previous seven years combined, and the majority of these credit default swaps were reportedly so-called "multi-sector collateralized debt obligations" – containing toxic sub-prime mortgage exposure. Moreover, it appears that the additional risk that AIG took on through these new, toxic credit default swaps was entirely or substantially unhedged.

Mismanagement of AIG's securities-lending operation over the same time period compounded AIG's losses. Insurance companies that lend securities to borrowers in exchange for cash collateral typically invest the cash in low-risk investments. Under my successors' leadership, however, AIG in 2006 and 2007 reportedly plowed tens of billions of dollars of cash collateral from its securities-lending program into securities with residential mortgage exposure, and stuck with that strategy even as the housing bubble collapsed. In 2008, as these investments lost value, demands for cash by borrowers returning securities AIG had loaned to them intensified the liquidity crisis facing the company as a result of demands for collateral by counterparties to the credit default swaps written by AIGFP for the toxic collateralized debt obligations.

Let me be clear: AIG's business model did not fail - its management did. AIG's business model has a long track record of success over many decades. AIG can recover from its immediate crisis, continue to be an employer of tens of thousands of hardworking Americans and repay the assistance it has received from the American taxpayer, but only if both the government and AIG's management change their approach to dealing with its future.

Thank you. I look forward to answering your questions.