

Geithner, Bernanke Exposed, Targeted for Crimes on AIG

by Paul Gallagher

Jan. 30—The high-profile, furious House of Representatives hearing on “the AIG bailout” held Jan. 27, and the Senate vote the next day on “Bubbles Ben” Bernanke’s renomination as Federal Reserve chairman, were events of the political mass strike that is sweeping the United States. That mass protest first arose nearly 18 months ago when the great bank bailouts of Fall 2008—supported by the then-Presidential candidates of both parties—showed Americans that Wall Street and City of London “banksters” controlled Washington and had destroyed the economy. Last week’s Congressional review of one of the biggest crimes—the AIG \$200 billion “back-door bailout” of all the international banks—was driven by the kick in the ass citizens delivered through the Jan. 19 Massachusetts special Senate election.

But, by Jan. 29, after Treasury Secretary Tim Geithner was raked over the coals, and Bernanke’s status was shaken and thrown into doubt, White House armtwisting prevailed—one more time—against the population’s clear demands. The Senate confirmed Bernanke 70-30, and the House allowed Geithner to stay in office—for now.

The blatant lying under oath by Geithner, who (along with his predecessor in crime, former Treasury Secretary Hank Paulson) disclaimed all knowledge of the key decisions in the AIG bailout and its cover-up, moved three Congressmen to demand Geithner’s immediate resignation: John Mica (R-Fla.), Stephen Lynch (D-Mass.) and Patrick McHenry (R-N.C.). Another, Rep. John Duncan (R-Tenn.) warned, “You know, Mr. Secretary, the American people are very, very angry about your bailing out these banks.” But despite directing their fury at Geithner about the now-exposed consequences of that bailout—in particular, the people’s aroused ire against *them*—many members of the House Oversight and Government Reform

Committee agreed to the bailout then, and refuse to reverse it now, as economist Lyndon LaRouche proposes.

The decisions Geithner is lying about came not from him, but from the White House, under two successive Presidencies. Nor were they made by either President, but behind the scenes; ultimately they were made in London. Obama was a British puppet of those decisions then, as a candidate, and now, as President.

This Crime Is an Orphan

To the outrage of Rep. Edolphus Towns’ (D-N.Y.) Oversight and Government Reform Committee, neither Geithner, nor Paulson, nor New York Federal Reserve Board chairman Charles Friedman, nor New York Fed general counsel Thomas Baxter would acknowledge, on Jan. 27, having had anything to do with the fatal decision to carry out history’s biggest bailout, or knowing anything about how the decision was made. That was the Fall 2008 decision to pour, ultimately, \$200 billion in taxpayers’ money into AIG’s holding company, in a huge “back-door bailout” to international investment banks led by Goldman Sachs. *All* of the above have in common, either employment by, or very close continuing connections with, Goldman Sachs.

Representative Lynch shouted at Geithner for several minutes. “The conduct of yourself and Secretary Paulson was consistently not on the side of the American people,” he said. “If you could let Lehman go bankrupt, why did AIG have to be bailed out?... This stinks to high heaven! The commitment to Goldman Sachs trumped your responsibility to the American people!”

The special inspector-general for the TARP bailout program, Neil Barofsky, testified later that day, that his office had clear proof that Geithner personally made the



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How long can the Obama Administration withstand the pressure from aroused Americans to get out, beginning with the lying Treasury Secretary Tim Geithner?

immediate decision to pay the banks full face “value” for toxic derivatives and collateralized debt securities, to the tune of \$62 billion, in November 2008. The bank bailout through AIG subsequently grew to more than \$185 billion in total.

The AIG holding company, a monster created out of the old Asia-based British imperial crown company CV Starr, has been accurately described as a huge hedge fund squatting on top of various insurance companies it acquired around the world. The bailout of the holding company was exclusively to the benefit of the banksters of at least 15 international investment firms, headed by Goldman Sachs and Société Générale, which generated toxic debt securities and “insured” hundreds of billions of dollars worth of them with AIG’s London office. The U.S. government, in 2008, should have forced the AIG holding company into bankruptcy court, and had sound advice to do so (see box). Instead, it “stuffed the corpse of AIG full of money,” as Towns put it, and Goldman and the other banksters took 100% of the face value of their worthless derivatives contracts, known as credit default swaps.

Goldman Sachs operatives, considered specialists in Ponzi schemes as far back as the 1920s, today spe-

cialize in every crime known to the banksters who caused the crash, from July 2007 on. They “leverage” their speculative investment operations with debt by up to 33-to-1. They sell their clients securities specifically designed to pay Goldman—and loot the clients—as the global “mortgage bubble” melted down. They use impermissible “naked short-selling” and “front-running stock transactions” to drive down other financial firms, or the markets as a whole, for their own strategic objectives. And they fill Washington’s power offices with their veteran banksters.

Bernanke’s AIG Exposure

Had Federal Reserve Chairman Ben Bernanke been called and sworn before Towns’ committee, his second term as Fed chairman had probably gone down the drain in the Senate next day. It was revealed at that hearing, but only briefly, that Bernanke had overruled the opinion of his own staff in October-November 2008, which was that AIG should be allowed to go into bankruptcy, not bailed out, and Goldman Sachs and the other bank “counterparties” should *not* be paid with taxpayer bailout funds.

Ranking Member Rep. Darrell Issa (R-Calif.), alluding to Fed e-mails analyzed by Sen. Jim Bunning (R-Ky.), asked Geithner, “You knew that Fed staff had recommended bankruptcy to Bernanke, just like Lehman Brothers. Were you aware of that?” Geithner managed not to answer, admitting only that there was “enormous debate” over the bailout, presumably among Fed economists.

Several financial newsletters reported “documents which apparently prove that Chairman Bernanke played a major role in deciding to bail out AIG and, indirectly, Goldman Sachs and other large bank dealers.” “The Fed appears to be withholding these documents from Congress until after the Senate votes on the Bernanke nomination,” wrote *Institutional Risk Analysis* newsletter. Bunning’s staff has been examining the

documents under strict rules of confidentiality imposed by the Fed. Issa said that Bunning reported they that show Bernanke overruled the recommendation of his own staff, and pushed the bailout of AIG.

And the *New York Times* reported that Congress has documents proving that two Fed governors thought the AIG bailout was “a gift to the banks” that the Fed was not authorized to make; they also would have made Goldman Sachs and other banks return \$30 billion in “collateral” on derivatives contracts, which an earlier TARP bailout of AIG had provided it with. Bernanke said no, bail ’em out.

The Scarlet Letter: ‘Schedule A’

On Jan. 28, the day after the Towns Committee hearing, Issa made public a document (Schedule A) that the Federal Reserve Bank of New York (FRBNY) wanted kept confidential by the Securities Exchange Commission (SEC) until 2018! This five-page document lists about 400 worthless AIG credit default swaps for which Goldman and more than a dozen other international banks were paid at 100% of face value, with \$62 billion in U.S. taxpayers’ funds, at the insistence of Bernanke and Geithner, who then, in November 2008, was New York Federal Reserve Bank president.

What AIG Needed Was Bankruptcy Reorganization

Feb. 1—Treasury Secretary Tim Geithner repeated, at the Jan. 27 House Oversight and Government Reform Committee hearing, that he opposes any restoration of the 1933 Glass-Steagall Act, repealed in 1999. He also claimed that the Treasury did not have the ability to put AIG into bankruptcy—an outright lie. Instead, he said, he had to compensate the banks that AIG owed, at 100%.

Rep. Dennis Kucinich (D-Ohio) gave Geithner the “Ferdinand Pecora” treatment, exposing many of his lies. Specifically, he showed that, if the government *or* bankruptcy court had taken over AIG’s holding company, by law, none of its derivatives contracts and hedges would be honored. The toxic claims of Goldman and 15 other international banks would have been in direct conflict with the claims of many millions of individuals and institutions insured by AIG’s insurance subsidiaries. State insurance commissioners and/or a bankruptcy court would have barred the banks’ claims, and ordered them to return collateral on the toxic derivatives, which they had already paid to the banks. Goldman would lose \$2.5 billion at least, twice the amount of its 2008 reported profit.

“Did you know that?” Kucinich asked Geithner. Geithner said no.

But Goldman had said so publicly when it seized “collateral” of \$8 billion from AIG after the TARP bailout. Kucinich nailed down that once the government took control of AIG, the banks’ *only* hope of payment was the New York Federal Reserve—which then bailed them out with \$62 billion through AIG.

Goldman was “locked in battle” with the AIG holding company—often described as “a giant hedge fund placed on top of a lot of insurance companies”—over which company would loot the other of the losses from toxic derivatives. Those derivatives touched 50% of Goldman’s net worth. Goldman “expected to take a very large haircut,” Kucinich showed.

At the start of the AIG holding company’s collapse, in July 2008, New York State Insurance Commissioner Eric Dinallo had bent—he allowed the holding company to borrow \$19 billion from its subsidiaries to try to save its AAA credit rating—but he had not broken. He allowed no further impairment of the insurance subsidiaries after that. State insurance commissioners would have taken control of AIG’s insurance subsidiaries, and protected them from the doomed holding company and the banks, which could pay for their own wild speculations by going through a bankruptcy reorganization.

As Kucinich documented, Goldman Sachs was facing bankruptcy, if the Glass-Steagall principle completely separating depository banking from casino operations, and protecting only the former, were in force. Goldman should have been allowed to go down.

Schedule A, now on Issa's website, includes the names of all of AIG's counterparties, the identification numbers of each transaction, and the prices at which a Federal Reserve fund called "Maiden Lane 3" was purchasing the banks' underlying "assets." AIG's filings to the SEC on Dec. 2 and Dec. 24, 2008 omitted Schedule A. It was finally submitted under SEC pressure, but was kept "in a special area at the SEC where national security related files are kept."

Issa also released a 22-page report: "Public Disclosure as a Last Resort: How the Federal Reserve Fought to Cover Up the Details of the AIG Counterparties Bailout from the American People." In it, several e-mails further establish that Geithner lied under oath in claiming that, when President-elect Obama nominated him for Treasury Secretary, he recused himself from New York Federal Reserve Bank matters.

For example, on Nov. 13, 2008, Geithner received a report for Congress on AIG's restructuring, which he had asked personally to review. A staff member of the New York Fed, forwarded the report to Geithner with the message: "Tim—this is the draft EESA-required filing on AIG that the Board owes the Hill, as you requested." Geithner's meeting logs show at least six formal meetings with top New York Fed staff members about AIG issues between Nov. 4 and Nov. 21, 2008.

In the hearing, Rep. Marcy Kaptur (D-Ohio) pressed Geithner: "Can you provide for the record a copy of the recusal agreement that you signed when you were at the New York Fed?" Geithner answered: "I did not sign a recusal agreement. I withdrew from day-to-day management, operations, policies of the New York Fed, and my colleagues both in Washington and in New York can attest to that." Incredibly, Geithner claimed he pulled this sort of disappearance *while retaining his office as New York Fed president*. He called this mysterious set-up "unique, but the right arrangement to make."

However, TARP special inspector-general Barofsky testified that, when New York Fed executives were asked by his staff if they felt they had received their "marching orders from then-FRBNY President Geithner to pay the [bank] counterparties par," one FRBNY official responded, "Yes, absolutely." The decision to pay effective par value was then brought before the board of directors of the FRBNY, headed by Goldman Sachs banker Stephen Friedman. Not

surprisingly, the decision was approved.

Some other New York Fed e-mails made public by Representative Issa:

- Nov. 11, 2008: "As a matter of course, we do not want to disclose that the concession [to the banks] is at par, unless absolutely necessary."
- Nov. 25, 2008: "I don't think any of us expected that ML [Maiden Lane] II and ML III documents would be publicly available."
- Feb. 23, 2009: "Also, we have specifically told the firm [AIG] not to disclose that the counterparties received par consideration for the transaction...."

It's By No Means Over

In releasing these documents, Issa said: "It's not conjecture, it's not speculation, it's fact. The New York Fed gave a back-door bailout to AIG's counterparties and then tried to cover it up.... *If he [Geithner] or anyone else thinks that this investigation will stop after today's hearing, they are completely mistaken*. There has been a widespread effort by officials at the NY Fed to thwart transparency; and working with the SIGTARP [Barofsky], we will continue to pursue this investigation for as long as it takes to get the truth" (emphasis added).

Issa wrote to Chairman Towns, "New information has come to light about documents in the possession of the Federal Reserve Board of Governors regarding the Federal Reserve's decision to bail out AIG in September of 2008. I am writing to request that you issue a subpoena to the Federal Reserve for these documents as soon as possible.

"This morning, Sen. Jim Bunning, a Member of the Senate Banking Committee who is familiar with documents in the possession of the Federal Reserve, publicly referred to an e-mail by Chairman Bernanke to his staff, after his staff recommended that the Federal Reserve not touch AIG, just like Lehman Brothers. According to Senator Bunning, Chairman Bernanke's staff did not agree with him.

"In addition, my office has received important information from a whistleblower that confirms Senator Bunning's public statements. According to the whistleblower, the documents [which Issa's letter identify by electronic number] reveal troubling details about Federal Reserve Chairman Ben Bernanke's personal involvement in the original decision to bail out AIG in September 2008."