DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 17, 2009

The Honorable Nancy Pelosi
Speaker of the U.S. House of Representatives
Washington, DC 20515

Dear Madame Speaker:

I know that there is considerable outrage in the House of Representatives, as there is throughout the country, about the bonuses awarded to employees of AIG Financial Products division at a time when the company is reliant on significant taxpayer dollars. The President shares that outrage, and so do I.

I am writing to outline the steps taken by the Department of the Treasury to date, to update you on the actions we are taking to recoup the retention payments just made, and to deal with future payments of executive compensation by AIG.

I registered my strong objections to Mr. Edward Liddy, the CEO of AIG, last week when I was first informed by my staff about the pending payment obligations.

Mr. Liddy told me that a tranche of $165 million in retention bonuses were contractually committed and payable by March 15 to employees within the financial products division - the very division most culpable for the rapid deterioration of AIG. Mr. Liddy, who took the reins of the firm after the bonuses were negotiated in April of 2008, said AIG's lawyers had concluded that the contracts were legally binding. I asked for a written explanation and legal analysis to support that claim, including the legal liabilities that would arise if the contracts were breached, and turned it over to Treasury's own lawyers to review.

Our lawyers agreed, in consultation with outside counsel, that it would be legally difficult to prevent these contractually-mandated payments. Even the new executive compensation restrictions recently passed in the American Recovery and Reinvestment Act (ARRA) allow for the payment of contracts signed before the act went into effect.

I demanded of Mr. Liddy that he scrap or cut hundreds of millions of dollars in additional payments due this year and beyond. He has committed to do this on terms that are consistent with the executive compensation provisions of ARRA, the administration's executive compensation guidelines, and the interests of the American taxpayers.

As you know, the President has asked me to fully review all additional measures at my disposal to recoup these bonuses and to recover funds on behalf of taxpayers.

We are presently working with the Department of Justice to determine what avenues are available by which we can recoup the retention awards that have been paid. The executive compensation provisions of the ARRA provide that the Secretary of the Treasury "shall review compensation paid to the senior executive officers and the next 20 mostly highly-compensated employees of each entity receiving TARP assistance before the date of enactment of the ARRA, to determine whether any such payments were inconsistent with the purposes of this section or the TARP or were otherwise contrary to the public interest." If such a determination is made, the Secretary "shall seek to negotiate with the TARP recipient and the subject employee[s] for appropriate reimbursements to the Federal Government." Our review will determine whether we can recoup these bonuses under the authority granted by ARRA or by other means.

We also want to insure that taxpayers are compensated for any monies we cannot recover.

Therefore, as part of our provision of recently announced taxpayer funds, we will impose on AIG a contractual commitment to pay the Treasury from the operations of the company the amount of the retention awards just paid. In addition, we will deduct from the $30 billion in assistance an amount equal to the amount of those payments.

Going forward, future AIG bonuses will be subject to the strict executive compensation provisions enacted by Congress in the ARRA. We are currently developing the regulations to implement those provisions, which will apply broadly to AIG and other companies receiving assistance from Treasury. These actions, consistent with the ARRA and other executive compensation guidelines under consideration by the Administration, are being taken to protect taxpayer funds and align long-term compensation with the interests of taxpayers.

But in working to resolve the AIG bonus problem, we should not lose focus on the larger issue it raises.

This situation dramatically underscores the need to adopt, as a critical part of financial regulatory reform, an expanded "resolution authority" for the government to better deal with situations like this. Such a resolution authority should include a comprehensive and broad set of regulatory tools that would enable the government to deal with financial institutions, like AIG, whose failure would pose substantial risks to our financial system, but to do it in a way that will protect the interests of taxpayers and innocent counterparties. Without this expanded authority, the government has been forced to take extreme measures to prevent the catastrophic collapse of AIG and allow the time necessary for its orderly wind down.

We will continue our aggressive efforts to resolve the future status of AIG in a manner that will reduce the systemic risks to our financial system while minimizing the loss to taxpayers. And we will explore any and all responsible ways to accelerate this wind down process.

I know that much of the public ire has fallen on Mr. Liddy, which is understandable, since it is his name on the door. But it also is unjustified. Mr. Liddy was put in place as the CEO of AIG last year at the request of the U.S. government to help rehabilitate the company and repay taxpayer funds. He inherited a difficult situation, including these AIGFP retention contracts, which were entered prior to his or the government's involvement in AIG. As long as he is there, we will work with him on measures to wind down AIG in an orderly way and protect the American taxpayer.

Most important for the long-term health of the credit markets that are a key to the economy, I look forward to working with Congress to modernize our financial regulatory system in way that protects the American taxpayer, meets the challenges of a dynamic global market and reduces the chance that we will face a financial crisis of this magnitude in the future.

Sincerely,

Timothy F. Geithner