

**UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT**

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**ROBERT L. SCHULZ,**

**Plaintiff-Appellant,**

**-against-**

**UNITED STATES FEDERAL RESERVE SYSTEM,  
BEN S. BERNANKE, Chairman of the United States  
Federal Reserve System, UNITED STATES  
DEPARTMENT OF THE TREASURY, HENRY M.  
PAULSON, JR., Secretary of the United States  
Department of the Treasury, and the UNITED STATES**

**1:08-CV-991 (Lead)  
(GLS-DRH)**

**Defendants-Respondents**

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**ROBERT L. SCHULZ,**

**Plaintiff-Appellant,**

**-against-**

**UNITED STATES EXECUTIVE DEPARTMENT,  
GEORGE W. BUSH, President of the United States,  
HENRY M. PAULSON, JR., Secretary of the Treasury;  
UNITED STATES CONGRESS, NANCY PELOSI,  
Speaker of the House of Representatives, HARRY  
REID, Senate Majority Leader; UNITED STATES  
FEDERAL RESERVE SYSTEM, BEN S. BERNANKE,  
Chairman of the Board of the United States Federal  
Reserve System,**

**1:08-CV-1011 (Member)  
(GLS-DRH)**

**Defendants-Respondents**

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**DECLARATION BY ROBERT L. SCHULZ IN SUPPORT  
OF EMERGENCY MOTION FOR INJUNCTIVE RELIEF**

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Robert L. Schulz, under penalty of perjury, declares:

1. I am the Plaintiff in the matter captioned above and I make this affidavit in support of the motion for temporary and preliminary injunctive relief.
2. On September 30, 2008, I downloaded from the New York Times website the article titled, "House Rejects Bailout Package, 228-205; Stocks Plunge," and the article, "Treasury and the Fed Looking at Options." Copies of both are included in Exhibit A.
3. On September 28, 2008, I downloaded the following documents from the website of the United States House Committee on Financial Services:
  - a. A homepage with hyperlinks to the Emergency Economic Stabilization Act of 2008 ("EESA"), a Summary of EESA, and a Section-by-Section of EESA. See Exhibit B.
  - b. The 110 page Emergency Economic Stabilization Act of 2008 ("EESA"). Exhibit C.
  - c. A Summary of EESA. Exhibit D hereto.
  - d. A Section-by-Section of EESA. Exhibit E hereto.
4. On September 28, 2008, I downloaded from the New York Times website the article titled, "Behind Insurer's Crisis, Blind Eye to a Web of Risk." Exhibit F.
5. On September 29, 2008, I downloaded from the New York Times website the article titled, "Breakthrough Reached in Negotiations on Bailout." Exhibit G.

Dated: September 30, 2008

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ROBERT L. SCHULZ  
2458 Ridge Road  
Queensbury, NY 12804  
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September 30, 2008

## Treasury and Fed Looking at Options

By [EDMUND L. ANDREWS](#) and [MARK LANDLER](#)

WASHINGTON — For the [Federal Reserve](#) and the Treasury Department, the crisis continues.

Without the broad [bailout plan](#) they invented and lobbied hard for, the two agencies are once again forced to careen from one desperate path to another, and to dig deep into their toolkits to rescue the global financial system. Even before the House stunned the world on Monday by rejecting the Bush administration's bailout bill, the Fed was already resorting to the oldest action in its book: printing money.

With money markets around the world seizing in fear, the Fed on Monday announced that it would provide an extra \$150 billion through an emergency lending program for banks, and an additional \$330 billion through so-called swap lines with foreign central banks to help money markets from Europe to Asia.

It was an extraordinary display of financial power, and it reflected acute new anxiety at the Fed and central banks around the world that the crisis of confidence in American financial markets had metastasized to money markets everywhere.

That was on top of the \$230 billion the Fed borrowed last week so it could finance its previous efforts to prop up the [American International Group](#) and other institutions. But these are only the latest in a long series of jaw-dropping departures from normal policy that the Fed has undertaken this year as it seeks to inject vast amounts of capital into the financial system. And they are unlikely to be the last.

Even if Congress refuses to pass the bailout measure, there is more money where that came from. The Treasury Department has already created a series of "supplemental" Treasury securities to finance the Fed's activities, and there is no limit to how many more it can issue and sell.

Treasury and Fed officials made it clear after the House vote on Monday that they still had a wide range of tools at their disposal. But most of the remaining options are ad hoc, rather than systemwide. The Fed, for example, can lend money to any company it deems too dangerous to

fail by invoking the same Depression-era law it has already used to deal with failing firms like [Bear Stearns](#) and A.I.G.

The Treasury Department, meanwhile, has already vowed to buy up billions of dollars in mortgage-backed securities under the authority it received in the housing bill that Congress passed in the summer.

The bad news is that those attempts have done little or nothing to bolster confidence in the financial markets. Yields on three-month Treasury bills shrank to just 0.29 percent on Monday, a sign that investors were fleeing from any kind of risk, even if it meant earning a return far lower than the inflation rate.

Interbank lending rates climbed to new highs on Monday, as banks became even more fearful about lending to one another than they were last week.

“The liquidity measures are a stopgap,” said Laurence H. Meyer, vice chairman of Macroeconomic Advisers, a forecasting firm. “You’re funding the banks’ balance sheets, but nobody wants to lend money to them because they’re all afraid of insolvency.”

Administration officials were shocked at the House’s refusal to approve their bailout plan but are still hoping to rescue the plan later this week, by offering some modifications that will win over rebellious House Republicans without losing crucial Democratic votes.

“We need to put something back together that works,” said Treasury Secretary [Henry M. Paulson Jr.](#) Though he promised to “use all the tools available to protect our financial system,” he warned that “our toolkit is substantial but insufficient.”

In the absence of broader authority, Treasury officials are reviewing the options for creatively using the same kinds of case-by-case actions they have taken over the last six months — taking over [Fannie Mae](#) and [Freddie Mac](#), bailing out A.I.G., and arranging shotgun marriages between failing institutions and healthy ones.

Robert A. Dye, chief economist at PNC Financial in Pittsburgh, said those efforts amounted to patchwork solutions and had thus far failed to bolster confidence in credit markets.

“The problem is that these are just a series of ad hoc solutions on a business-by-business basis, and they aren’t addressing the systemic problems in any basic way,” Mr. Dye said.

But other analysts said that credit markets around the world were almost entirely dysfunctional on Monday morning, when political leaders and investors alike assumed that

Congress had reached a firm deal and would easily approve the bailout.

“It’s our view that this package, in a fundamental sense, will not solve the problem,” said Simon Johnson, a former chief economist at the [International Monetary Fund](#). Mr. Johnson said that he had been hoping that the bailout plan would simply stabilize the markets through the presidential elections in November, but that he was now pessimistic about even that.

Michael Darda, chief economist at MKM Partners, an investment firm in Greenwich, Conn., said the Treasury’s bailout plan might have even unnerved many investors.

“I don’t see how it can help banks unless it’s clear that the government is going to buy these assets for substantially more than they are worth right now,” Mr. Darda said. “It’s such a big step in terms of government influencing the private sector, and it’s hard for investors to take a leap like that overnight, especially when they don’t know what’s going on.”

The Federal Reserve has stretched its resources to the limit. Before the crisis began in August 2007, the Fed had about \$800 billion in reserve, nearly all in Treasury securities.

But because of all the new lending programs for banks and Wall Street firms, analysts estimate that the Fed’s balance sheet now has less than \$300 billion in unfettered reserves.

The central bank can expand its reserves at will, because it controls the money supply and can create more to buy things like Treasury securities and mortgage-backed securities.

“We have a lot of money to play with,” said Kenneth Rogoff, an international economist at Harvard. “As long as foreigners have a lot of confidence in our ability to solve our problems, we can borrow the \$1 trillion to \$2 trillion we need to solve it.”

But Mr. Rogoff cautioned that the real limitation for American policy makers is whether they can maintain the government’s long-term credibility. “The real constraint is not a bookkeeping one,” he said. “It is a sense of faith on the part of foreigners that the U.S. government will repay its debt. Our most precious asset is that credibility.”

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September 30, 2008

## Defiant House Rejects Huge Bailout; Next Step Is Uncertain

By [CARL HULSE](#) and [DAVID M. HERSZENHORN](#)

WASHINGTON — Defying President Bush and the leaders of both parties, rank-and-file lawmakers in the House on Monday rejected a \$700 billion economic [rescue plan](#) in a revolt that rocked the Capitol, sent markets plunging and left top lawmakers groping for a resolution.

The stunning defeat of the proposal on a 228-205 vote after marathon talks by senior Congressional and Bush administration officials lowered a fog of uncertainty over economies around the globe. Its authors had described the measure as essential to preventing widespread economic calamity.

The markets began to plummet even before the 15-minute voting period expired on the House floor. For 25 more minutes, uncertainty gripped the nation as television showed party leaders trying, and failing, to muster more support. Finally, Representative Ellen Tauscher, Democrat of California, pounded the gavel and it was done.

In the end, only 65 Republicans — just one-third of those voting — backed the plan despite personal pleas from President Bush and encouragement from their presidential nominee, Senator [John McCain](#). By contrast, 140 Democrats, or 60 percent, voted in favor, many after voicing grave misgivings. Their nominee, Senator [Barack Obama](#), also backed the bill.

By the end of day, the Dow had fallen almost 778 points, or nearly 7 percent, to 10,365. Credit markets also remained distressed, with bank lending rates rising and investors fleeing to the safety of Treasury bills.

Among opponents of the rescue plan, some Republicans cited ideological objections to government intervention, and liberal Democrats said they were of no mind to race to aid Wall Street tycoons. Other critics complained about haste and secrecy in assembling the plan.

But lawmakers on both sides pointed to an outpouring of opposition from deeply hostile constituents just five weeks before every seat in the House was up for election as a fundamental reason that the measure was defeated. House members in potentially tough races and those

seeking Senate seats fled from the plan in droves.

“People’s re-elections played into this to a much greater degree than I would have imagined,” said Representative Deborah Pryce of Ohio, a former member of the Republican leadership who is retiring this year and voted for the plan. Congressional leaders in both parties said they did not know how they would proceed but were examining options, including having the Senate, where there was more support for the bailout, advance a bill after the Jewish New Year on Tuesday. Congressional leaders said any doubt about the need for action should have been removed by the market fall.

“We’re not leaving town till we get it fixed,” said Senator [Mitch McConnell](#) of Kentucky, the Republican leader.

At the White House, Mr. Bush met with his economic advisers as well as the [Federal Reserve](#) chairman, [Ben S. Bernanke](#), to discuss next steps. “I was disappointed in the vote,” Mr. Bush said, appearing in the Oval Office with President [Viktor A. Yushchenko](#) of Ukraine. “Our strategy is to continue to address this economic situation head on.”

The Treasury secretary, [Henry M. Paulson Jr.](#), who was the main architect of the financial rescue plan, said he would continue to work with Congressional leaders “to find a way forward to pass a comprehensive plan to stabilize our financial system and protect the American people.” He added, “This is much too important to simply let fail.”

Mr. McCain and Mr. Obama renewed their calls for swift action, though each campaign sought to partly blame the other for the defeat.

At the Capitol, Democrats accused Republicans of failing to deliver enough number of votes. “Sixty-seven percent of the Republican Conference decided to put political ideology ahead of the best interest of our great nation,” the Democratic whip, Representative James E. Clyburn of South Carolina, said after the vote.

Representative Roy Blunt of Missouri, the Republican whip, said that before the vote he had tallied 75 votes in his conference in favor of the plan. By the time the votes were cast, the Republicans could deliver only 65 of them.

Other top Republicans pointed at what they saw as a partisan speech by Speaker [Nancy Pelosi](#) in advance of the vote as a factor — a charge Democrats derided.

Republicans said they had alerted Democrats they might not have the numbers required. But

they never recommended the legislation be put off and in the end they were unable to win any last-second converts to change the votes that would have been necessary to turn defeat into victory.

Representative [John A. Boehner](#) of Ohio, the House Republican leader, said he tried repeatedly and unsuccessfully to sway a handful of holdouts, but eventually gave up.

“You can’t break their arms, you can’t put your whole relationship on the line with them and ask them to do something they do not want to do and have that member regret that vote for the rest of their life,” said Mr. Boehner, who said he could not remember a time when the muscle of both parties and the White House failed to produce a victory.

The outcome after a slightly more than 40-minute vote on the House floor left lawmakers almost speechless. Even the strongest opponents of the measure did not expect to prevail, and the leadership of both parties, while increasingly nervous, figured they would squeak out a victory despite a parade of Republicans and Democrats to microphones to assail the measure. At the White House, the deputy press secretary, Tony Fratto, said just before the vote: “We’re confident that it will pass.”

Under the proposal, the Treasury Department could tap up to \$700 billion in taxpayer money in installments to buy troubled debt from financial firms, in the hopes of freeing up credit to fuel normal economic activity.

In the final stages of negotiations, new provisions intended to recoup taxpayer losses were added. They helped the measure win support from Mr. Boehner and some other House Republican leaders, who had strongly opposed an earlier version of the bill. But they did not put the package over the top.

In impassioned speeches on the House floor, Democrats and Republicans alike vented their frustration over the nation’s perilous economic condition and the uncomfortable position they were in, facing pressure to approve an unpopular bailout package during an election year, with no guarantee that it would work.

“This is a huge cow patty with a piece of marshmallow stuck in the middle of it and I am not going to eat that cow patty,” said Representative Paul Broun, Republican of Georgia.

“Nobody wants to do this,” said Representative [Edward J. Markey](#), Democrat of Massachusetts, who nonetheless voted for it. “Nobody wants to clean up the mess created by Wall Street recklessness.”

In the speech that Republicans said infuriated them, Ms. Pelosi accused Mr. Bush of squandering the budget surpluses of the Clinton years. “They claim to be free-market advocates, when it’s really an anything-goes mentality,” she said. “No supervision. No discipline. And if you fail, you will have a golden parachute and the taxpayer will bail you out.”

Democrats later said that if her speech truly cost votes, then Republicans, in the words of Representative [Barney Frank](#), Democrat of Massachusetts, were guilty of punishing the country because Ms. Pelosi had hurt their feelings.

As the voting time expired on the floor, party leaders realized they were coming up far short. At 1:49 p.m., it was 205 for and 228 against. At 1:54 p.m., they inched closer: 207 to 226, as some representatives changed their votes. What followed was a remarkable stalemate on the House floor, with top lieutenants in both parties clutching lists of votes, as they clustered in the well and made unusual forays into what is normally enemy territory across the aisle.

“I was asking where the hell their votes were,” said Representative [Rahm Emanuel](#) of Illinois, the No. 4 Democrat.

Mr. Blunt said he told Democrats he thought he could flip five votes, if Democrats could do the same. Democrats had warned that the Republicans that they would need to produce 80 to 100 votes to adopt an unpopular plan championed by the Republican White House. Ultimately, the Democrats decided the votes were not there and they allowed the gavel to come down. Opponents of the measure said they expected the administration and Congressional leaders to try again on a rescue proposal and were not worried about being held responsible for the stock decline or other economic uncertainty.

“I think we will be back in a couple of days with a proposal more palatable to more members,” said Representative John Yarmuth, a Kentucky Democrat who voted against the plan. “You don’t make the biggest financial decision in the history of this country in a few days’ time without hearings.”

But Representative Tom Davis, a Virginia Republican who is retiring from Congress and who backed the proposal, said those who opposed to the measure might be hearing a different message from their voters if economic conditions worsen. “The members who voted no will have some culpability,” he said.

The House leadership said Monday night that the House would reconvene at noon Thursday, though it was not known if another economic plan would be on the table.

“Stay tuned,” said Ms. Pelosi, who seemed physically drained. But she added: “What happened today cannot stand. We must move forward, and I hope that the markets will take that message.”

Representative Greg Walden, an Oregon Republican who supported the bailout, said lawmakers may quickly discover “whether this is as dire a situation as we were told.”

“This is playing with fire,” Mr. Walden said. “It’s very, very dangerous.”

*Robert Pear, Steven Lee Myers and Sheryl Gay Stolberg contributed reporting.*

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## SUMMARY OF THE “EMERGENCY ECONOMIC STABILIZATION ACT OF 2008”

### **I. Stabilizing the Economy**

The Emergency Economic Stabilization Act of 2008 (EESA) provides up to \$700 billion to the Secretary of the Treasury to buy mortgages and other assets that are clogging the balance sheets of financial institutions and making it difficult for working families, small businesses, and other companies to access credit, which is vital to a strong and stable economy. EESA also establishes a program that would allow companies to insure their troubled assets.

### **II. Homeownership Preservation**

EESA requires the Treasury to modify troubled loans – many the result of predatory lending practices – wherever possible to help American families keep their homes. It also directs other federal agencies to modify loans that they own or control. Finally, it improves the *HOPE for Homeowners* program by expanding eligibility and increasing the tools available to the Department of Housing and Urban Development to help more families keep their homes.

### **III. Taxpayer Protection**

Taxpayers should not be expected to pay for Wall Street’s mistakes. The legislation requires companies that sell some of their bad assets to the government to provide warrants so that taxpayers will benefit from any future growth these companies may experience as a result of participation in this program. The legislation also requires the President to submit legislation that would cover any losses to taxpayers resulting from this program from financial institutions.

### **IV. No Windfalls for Executives**

Executives who made bad decisions should not be allowed to dump their bad assets on the government, and then walk away with millions of dollars in bonuses. In order to participate in this program, companies will lose certain tax benefits and, in some cases, must limit executive pay. In addition, the bill limits “golden parachutes” and requires that unearned bonuses be returned.

### **V. Strong Oversight**

Rather than giving the Treasury all the funds at once, the legislation gives the Treasury \$250 billion immediately, then requires the President to certify that additional funds are needed (\$100 billion, then \$350 billion subject to Congressional disapproval). The Treasury must report on the use of the funds and the progress in addressing the crisis. EESA also establishes an Oversight Board so that the Treasury cannot act in an arbitrary manner. It also establishes a special inspector general to protect against waste, fraud and abuse

## SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

### **Section 1. Short Title.**

“Emergency Economic Stabilization Act of 2008.”

### **Section 2. Purposes.**

Provides authority to the Treasury Secretary to restore liquidity and stability to the U.S. financial system and to ensure the economic well-being of Americans.

### **Section 3. Definitions.**

Contains various definitions used under this Act.

## **Title I. Troubled Assets Relief Program.**

### **Section 101. Purchases of Troubled Assets.**

Authorizes the Secretary to establish a Troubled Asset Relief Program (“TARP”) to purchase troubled assets from financial institutions. Establishes an Office of Financial Stability within the Treasury Department to implement the TARP in consultation with the Board of Governors of the Federal Reserve System, the FDIC, the Comptroller of the Currency, the Director of the Office of Thrift Supervision and the Secretary of Housing and Urban Development.

Requires the Treasury Secretary to establish guidelines and policies to carry out the purposes of this Act.

Includes provisions to prevent unjust enrichment by participants of the program.

### **Section 102. Insurance of Troubled Assets.**

If the Secretary establishes the TARP program, the Secretary is required to establish a program to guarantee troubled assets of financial institutions.

The Secretary is required to establish risk-based premiums for such guarantees sufficient to cover anticipated claims. The Secretary must report to Congress on the establishment of the guarantee program.

### **Section 103. Considerations.**

In using authority under this Act, the Treasury Secretary is required to take a number of considerations into account, including the interests of taxpayers, minimizing the impact on the national debt, providing stability to the financial markets, preserving homeownership, the needs of all financial institutions regardless of size or other characteristics, and the needs of local communities. Requires the Secretary to examine the long-term viability of an institution in determining whether to directly purchase assets under the TARP.

**Section 104. Financial Stability Oversight Board.**

This section establishes the Financial Stability Oversight Board to review and make recommendations regarding the exercise of authority under this Act. In addition, the Board must ensure that the policies implemented by the Secretary protect taxpayers, are in the economic interests of the United States, and are in accordance with this Act.

The Board is comprised of the Chairman of the Board of Governors of the Federal Reserve System, the Secretary of the Treasury, the Director of the Federal Home Finance Agency, the Chairman of the Securities and Exchange Commission and the Secretary of the Department of Housing and Urban Development.

**Section 105. Reports.**

*Monthly Reports:* Within 60 days of the first exercise of authority under this Act and every month thereafter, the Secretary is required to report to Congress its activities under TARP, including detailed financial statements.

*Tranche Reports:* For every \$50 billion in assets purchased, the Secretary is required to report to Congress a detailed description of all transactions, a description of the pricing mechanisms used, and justifications for the financial terms of such transactions.

*Regulatory Modernization Report:* Prior to April 30, 2009, the Secretary is required to submit a report to Congress on the current state of the financial markets, the effectiveness of the financial regulatory system, and to provide any recommendations.

**Section 106. Rights; Management; Sale of Troubled Assets; Revenues and Sale Proceeds.**

Establishes the right of the Secretary to exercise authorities under this Act at any time. Provides the Secretary with the authority to manage troubled assets, including the ability to determine the terms and conditions associated with the disposition of troubled assets. Requires profits from the sale of troubled assets to be used to pay down the national debt.

**Section 107. Contracting Procedures.**

Allows the Secretary to waive provisions of the Federal Acquisition Regulation where compelling circumstances make compliance contrary to the public interest. Such waivers must be reported to Congress within 7 days. If provisions related to minority contracting are waived, the Secretary must develop alternate procedures to ensure the inclusion of minority contractors.

Allows the FDIC to be selected as an asset manager for residential mortgage loans and mortgage-backed securities.

**Section 108. Conflicts of Interest.**

The Secretary is required to issue regulations or guidelines to manage or prohibit conflicts of interest in the administration of the program.

**Section 109. Foreclosure Mitigation Efforts.**

For mortgages and mortgage-backed securities acquired through TARP, the Secretary must implement a plan to mitigate foreclosures and to encourage servicers of mortgages to modify loans through Hope for Homeowners and other programs. Allows the Secretary to use loan guarantees and credit enhancement to avoid foreclosures. Requires the Secretary to coordinate with other federal entities that hold troubled assets in order to identify opportunities to modify loans, considering net present value to the taxpayer.

**Section 110. Assistance to Homeowners.**

Requires federal entities that hold mortgages and mortgage-backed securities, including the Federal Housing Finance Agency, the FDIC, and the Federal Reserve to develop plans to minimize foreclosures. Requires federal entities to work with servicers to encourage loan modifications, considering net present value to the taxpayer.

**Section 111. Executive Compensation and Corporate Governance.**

Provides that Treasury will promulgate executive compensation rules governing financial institutions that sell it troubled assets. Where Treasury buys assets directly, the institution must observe standards limiting incentives, allowing clawback and prohibiting golden parachutes. When Treasury buys assets at auction, an institution that has sold more than \$300 million in assets is subject to additional taxes, including a 20% excise tax on golden parachute payments triggered by events other than retirement, and tax deduction limits for compensation limits above \$500,000.

**Section 112. Coordination With Foreign Authorities and Central Banks.**

Requires the Secretary to coordinate with foreign authorities and central banks to establish programs similar to TARP.

**Section 113. Minimization of Long-Term Costs and Maximization of Benefits for Taxpayers.**

In order to cover losses and administrative costs, as well as to allow taxpayers to share in equity appreciation, requires that the Treasury receive non-voting warrants from participating financial institutions.

**Section 114. Market Transparency.**

48-hour Reporting Requirement: The Secretary is required, within 2 business days of exercising authority under this Act, to publicly disclose the details of any transaction.

**Section 115. Graduated Authorization to Purchase.**

Authorizes the full \$700 billion as requested by the Treasury Secretary for implementation of TARP. Allows the Secretary to immediately use up to \$250 billion in authority under this Act. Upon a Presidential certification of need, the Secretary may access an additional \$100 billion. The final \$350 billion may be accessed if the President transmits a written report to Congress requesting such authority. The Secretary may use this additional authority unless within 15 days Congress passes a joint resolution of disapproval which may be considered on an expedited basis.

**Section 116. Oversight and Audits.**

Requires the Comptroller General of the United States to conduct ongoing oversight of the activities and performance of TARP, and to report every 60 days to Congress. The Comptroller General is required to conduct an annual audit of TARP. In addition, TARP is required to establish and maintain an effective system of internal controls.

**Section 117. Study and Report on Margin Authority.**

Directs the Comptroller General to conduct a study and report back to Congress on the role in which leverage and sudden deleveraging of financial institutions was a factor behind the current financial crisis.

**Section 118. Funding.**

Provides for the authorization and appropriation of funds consistent with Section 115.

**Section 119. Judicial Review and Related Matters.**

Provides standards for judicial review, including injunctive and other relief, to ensure that the actions of the Secretary are not arbitrary, capricious, or not in accordance with law.

**Section 120. Termination of Authority.**

Provides that the authorities to purchase and guarantee assets terminate on December 31, 2009. The Secretary may extend the authority for an additional year upon certification of need to Congress.

**Section 121. Special Inspector General for the Troubled Asset Relief Program.**

Establishes the Office of the Special Inspector General for the Troubled Asset Relief Program to conduct, supervise, and coordinate audits and investigations of the actions undertaken by the Secretary under this Act. The Special Inspector General is required to submit a quarterly report to Congress summarizing its activities and the activities of the Secretary under this Act.

**Section 122. Increase in the Statutory Limit on the Public Debt.**

Raises the debt ceiling from \$10 trillion to \$11.3 trillion.

**Section 123. Credit Reform.**

Details the manner in which the legislation will be treated for budgetary purposes under the Federal Credit Reform Act.

**Section 124. Hope for Homeowners Amendments.**

Strengthens the Hope for Homeowners program to increase eligibility and improve the tools available to prevent foreclosures.

**Section 125. Congressional Oversight Panel.**

Establishes a Congressional Oversight Panel to review the state of the financial markets, the regulatory system, and the use of authority under TARP. The panel is required to report to Congress every 30 days and to submit a special report on regulatory reform

prior to January 20, 2009. The panel will consist of 5 outside experts appointed by the House and Senate Minority and Majority leadership.

**Section 126. FDIC Enforcement Enhancement.**

Prohibits the misuse of the FDIC logo and name to falsely represent that deposits are insured. Strengthens enforcement by appropriate federal banking agencies, and allows the FDIC to take enforcement action against any person or institution where the banking agency has not acted.

**Section 127. Cooperation With the FBI.**

Requires any federal financial regulatory agency to cooperate with the FBI and other law enforcement agencies investigating fraud, misrepresentation, and malfeasance with respect to development, advertising, and sale of financial products.

**Section 128. Acceleration of Effective Date.**

Provides the Federal Reserve with the ability to pay interest on reserves.

**Section 129. Disclosures on Exercise of Loan Authority.**

Requires the Federal Reserve to provide a detailed report to Congress, in an expedited manner, upon the use of its emergency lending authority under Section 13(3) of the Federal Reserve Act.

**Section 130. Technical Corrections.**

Makes technical corrections to the Truth in Lending Act.

**Section 131. Exchange Stabilization Fund Reimbursement.**

Protects the Exchange Stabilization Fund from incurring any losses due to the temporary money market mutual fund guarantee by requiring the program created in this Act to reimburse the Fund. Prohibits any future use of the Fund for any guarantee program for the money market mutual fund industry.

**Section 132. Authority to Suspend Mark-to-Market Accounting.**

Restates the Securities and Exchange Commission's authority to suspend the application of Statement Number 157 of the Financial Accounting Standards Board if the SEC determines that it is in the public interest and protects investors.

**Section 133. Study on Mark-to-Market Accounting.**

Requires the SEC, in consultation with the Federal Reserve and the Treasury, to conduct a study on mark-to-market accounting standards as provided in FAS 157, including its effects on balance sheets, impact on the quality of financial information, and other matters, and to report to Congress within 90 days on its findings.

**Section 134. Recoupment.**

Requires that in 5 years, the President submit to the Congress a proposal that recoups from the financial industry any projected losses to the taxpayer.

**Section 135. Preservation of Authority.**

Clarifies that nothing in this Act shall limit the authority of the Secretary or the Federal Reserve under any other provision of law.

**Title II—Budget-Related Provisions**

**Section 201. Information for Congressional Support Agencies.**

Requires that information used by the Treasury Secretary in connection with activities under this Act be made available to CBO and JCT.

**Section 202. Reports by the Office of Management and Budget and the Congressional Budget Office.**

Requires CBO and OMB to report cost estimates and related information to Congress and the President regarding the authorities that the Secretary of the Treasury has exercised under the Act.

**Section 203. Analysis in President’s Budget.**

Requires that the President include in his annual budget submission to the Congress certain analyses and estimates relating to costs incurred as a result of the Act; and

**Section 204. Emergency Treatment.**

Specifies scoring of the Act for purposes of budget enforcement.

**Title III—Tax Provisions**

**Section 301. Gain or Loss From Sale or Exchange of Certain Preferred Stock.**

Details certain changes in the tax treatment of losses on the preferred stock of certain GSEs for financial institutions.

**Section 302. Special Rules for Tax Treatment of Executive Compensation of Employers Participating in the Troubled Assets Relief Program.**

Applies limits on executive compensation and golden parachutes for certain executives of employers who participate in the auction program.

**Section 303. Extension of Exclusion of Income From Discharge of Qualified Principal Residence Indebtedness.**

Extends current law tax forgiveness on the cancellation of mortgage debt.



September 29, 2008

## Bailout Plan in Hand, House Braces for Tough Vote

By [CARL HULSE](#) and [DAVID M. HERSZENHORN](#)

WASHINGTON — The House braced for a difficult vote set for Monday on a \$700 billion rescue of the financial industry after a weekend of tense negotiations produced a plan that Congressional leaders portrayed as greatly strengthened by new taxpayer safeguards.

The 110-page bill, intended to ease a growing [credit crisis](#), came after a frenzied week of political twists and turns that culminated in an agreement between the Bush administration and Congress early Sunday morning.

The measure still faced stiff resistance from Republican and Democratic lawmakers who portrayed it as a rush to economic judgment and an undeserved aid package for high-flying financiers who chased big profits through reckless investments.

With the financial package looming as a final piece of business before lawmakers leave to campaign for the November elections, leaders of both parties in the House and Senate intensified their efforts to sell reluctant members of Congress on the legislation.

All sides had to surrender something. The administration had to accept limits on [executive pay](#) and tougher oversight; Democrats had to sacrifice a push to allow bankruptcy judges to rewrite mortgages; and Republicans fell short in their effort to require that the federal government insure, rather than buy, the bad debt.

Even so, lawmakers on all sides said the bill had been significantly improved from the Bush administration's original proposal.

The final version of the bill included a deal-sealing plan for eventually recouping losses; if the Treasury program to purchase and resell troubled mortgage-backed securities has lost money after five years, the president must submit a plan to Congress to recover those losses from the financial industry. Presumably that plan would involve new fees or taxes, perhaps on securities transactions.

"This is a major, major change," Speaker [Nancy Pelosi](#) said on Sunday evening as she declared

that negotiations were over and that a House vote was planned for Monday, with Senate action to follow.

The deal would also restrict gold-plated farewells for executives of companies that sell devalued assets to the Treasury Department.

President Bush called the measure “a very good bill” and praised Congressional leaders. “This plan sends a strong signal to markets around the world that the United States is serious about restoring confidence and stability to our financial system,” Mr. Bush said in a statement. “Without this [rescue plan](#), the costs to the American economy could be disastrous.”

House Republicans had threatened to scuttle the deal, and proposed a vastly different approach that would have focused on insuring troubled debt rather than buying it. In the end, the insurance proposal was included on top of the purchasing power, but there is no requirement that the Treasury secretary use it, leaving them short of that goal.

It is virtually impossible to know the ultimate cost of the rescue plan to taxpayers, but Congressional leaders stressed that it would likely be far less than \$700 billion. Because the Treasury will buy assets with the potential to resell them at a higher price, the government might even turn a profit.

That provision, pushed by House Democrats, was the last to be agreed to in a high-level series of talks that had top lawmakers and White House economic advisers hustling between offices just off the Capitol Rotunda until midnight on Saturday, scrambling to strike an agreement before Asian markets opened Sunday night.

The bill calls for disbursing the money in parts, starting with \$250 billion followed by \$100 billion at the discretion of the president. The Treasury can request the remaining \$350 billion at any time, and Congress must act to deny it if it disapproves.

The agreement on a bailout plan was greeted with subdued optimism in early Asian trading on Monday. But shares sank by late Monday morning on renewed worries about the credit crisis, with a decision by [HSBC](#) to raise lending rates by 0.5 percent in Hong Kong triggering a drop of 2 percent in the Hang Seng Index in Hong Kong and 0.9 percent in the Kospi Index in Seoul.

The stock market in Taiwan is closed on Monday as Typhoon Jangmi passes over Taipei.

The dollar also strengthened in Asia and was worth 106.485 yen by midmorning on Monday after trading at 106.01 late Friday in New York. The euro weakened to \$1.4506 on Monday

from \$1.4614 in late New York trading on Friday.

Ms. Pelosi, Treasury Secretary [Henry M. Paulson Jr.](#) and others taking part in the talks announced that they had clinched a tentative deal at 12:30 a.m. Sunday, exhausted and a little giddy after more than seven hours of sparring. There were several tense moments, none more so than when Mr. Paulson, a critical player, suddenly seemed short of breath and possibly ill. He was tired, but fine.

Trying to bring around colleagues who remained uncertain of the plan, its architects sounded the alarm about the potential consequences of doing nothing. Senator [Judd Gregg](#) of New Hampshire, the senior Republican on the Budget Committee and the lead Senate negotiator, raised the prospect of an economic catastrophe.

“If we don’t pass it, we shouldn’t be a Congress,” Mr. Gregg said.

Both major presidential candidates, Senator [John McCain](#) of Arizona, the Republican nominee, and Senator [Barack Obama](#), the Democratic candidate, gave guarded endorsements of the bailout plan. Both Mr. McCain and Mr. Obama had dipped into the negotiations during a contentious White House meeting on Thursday.

On Sunday evening, both parties convened closed-door sessions in the House to review the plan, and conservative House Republicans remained a potential impediment.

But the party leadership was circulating information aimed at refuting some of the main criticisms of the bailout, indicating they were poised to support it. “I am encouraging every member of our conference whose conscience will allow them to support this bill,” said Representative [John A. Boehner](#) of Ohio, the Republican leader.

A series of business-oriented trade associations with influence with Republicans also began weighing in on behalf of the plan.

The United States Chamber of Commerce issued a statement on Sunday night that said it “believes the legislation contains the necessary elements to successfully remove the uncertainty and stem the turmoil that has plagued financial markets in recent weeks.”

Members of the conservative rank and file remained unconvinced.

“While it creates a gimmicky \$700 billion installment plan, attempts to improve transparency, and has new provisions cloaked as taxpayer protections, its net effect is still a huge bailout of the financial sector that will snuff out the free market system,” said Representative Connie

Mack, Republican of Florida.

Some Democrats bristled that they were now being called on to do the financial bidding of an administration they had viewed as previously uncooperative in dealing with executives who had performed irresponsibly or worse.

“Financial crimes have been committed,” said Representative Marcy Kaptur, Democrat of Ohio. “Now Congress is being asked to bail out the culprits.”

Throughout Sunday, small groups of lawmakers could be found around the Capitol exchanging their views on the plan. Some said they were willing to take a political risk and back it.

One, Representative Jim Marshall, a Georgia Democrat facing a re-election contest, told colleagues in a private meeting that he would vote for the measure to bolster the economy. “I am willing to give up my seat over this,” Mr. Marshall said, according to another person who was there.

The architects of the plan said they realized they were calling on Congress to cast a tough vote since lawmakers might not get credit for averting a financial crisis since some constituents will not believe one was looming.

“Avoiding a catastrophe won’t be recognized,” said Senator [Christopher J. Dodd](#), Democrat of Connecticut and chairman of the Senate banking committee. “This economy is not going to have a blossoming on Wednesday.”

But he and others said the support from the two presidential contenders, Senators McCain and Obama, should provide some comfort to nervous lawmakers.

While the House was planning to act Monday, the Senate schedule was uncertain. A vote might not occur until Wednesday or later because of the Jewish holidays and possible procedural obstacles. But Senate vote-counters were confident they could get the needed support.

One of the more contentious issues was how to limit the pay of executives whose firms seek government aid, a top priority for Democrats and even some Republican lawmakers. But it was a concern for Mr. Paulson, who worried about discouraging firms from participating in the rescue plan, which seeks to convince companies to sell potentially valuable assets to the government at relatively bargain prices.

In the end, they settled on different rules for different companies depending on how they participate in the bailout. Firms that sell distressed debt directly to the government will be

subject to tougher pay limits, including a mechanism to recover any bonuses or other pay based on corporate earnings that turn out to be inaccurate or fraudulent, and a ban on so-called “golden parachute” severance packages as long as the government has a stake in the firm.

Companies that participate in auctions, or other market-making mechanisms, and sell more than \$300 million in troubled financial instruments to the government, will be barred from making any new employment contract with a senior executive that provides a golden parachute in the event of “involuntary termination, bankruptcy filing, insolvency or receivership.”

While some critics said the limits did not go far enough, lawmakers described the provision as a historic first step by Congress to limit exorbitant pay of corporate titans. “I think we wrote it as tight as we can get it in here,” Mr. Dodd said.

Congressional staff from both parties and Treasury worked through Friday night and into the predawn, before heading home for some sleep. They resumed work late Saturday morning, and Mr. Paulson arrived at the Capitol to join top lawmakers in Ms. Pelosi’s suite for a meeting at 3 p.m. At least a dozen major differences remained.

The meeting was initially described as a gathering of the five chief negotiators, Mr. Paulson, and a Democrat and Republican each from the House and Senate. But additional Democrats piled into the talks, angering Republicans who accused Democrats of packing the sessions.

For a brief, nerve-fraying moment at the outset, one administration participant said, Mr. Paulson surveyed the circus-like scene and wondered if everyone was committed to reaching a deal. It was quickly clear that they were — but not before so much information starting leaking out that the BlackBerrys of staff members were confiscated and collected in a trash bin.

At one point, Senator [Charles E. Schumer](#), Democrat of New York, was thumping the table, demanding to release the \$700 billion in installments. At another point, Senator [Max Baucus](#), Democrat of Montana, was shouting at Mr. Paulson, accusing him of trying to undermine the limits on pay for executives.

*Reporting was contributed by Keith Bradsher from Hong Kong and Robert Pear from Washington.*

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September 28, 2008

## Behind Insurer's Crisis, Blind Eye to a Web of Risk

By [GRETCHEN MORGENSON](#)

Correction Appended

“It is hard for us, without being flippant, to even see a scenario within any kind of realm of reason that would see us losing one dollar in any of those transactions.”

— Joseph J. Cassano, a former A.I.G. executive, August 2007

Two weeks ago, the nation's most powerful regulators and bankers huddled in the Lower Manhattan fortress that is the [Federal Reserve Bank of New York](#), desperately trying to stave off disaster.

As the group, led by Treasury Secretary [Henry M. Paulson Jr.](#), pondered the collapse of one of America's oldest investment banks, [Lehman Brothers](#), a more dangerous threat emerged: [American International Group](#), the world's largest insurer, was teetering. A.I.G. needed billions of dollars to right itself and had suddenly begged for help.

One of the Wall Street chief executives participating in the meeting was [Lloyd C. Blankfein](#) of [Goldman Sachs](#), Mr. Paulson's former firm. Mr. Blankfein had particular reason for concern.

Although it was not widely known, Goldman, a Wall Street stalwart that had seemed immune to its rivals' woes, was A.I.G.'s largest trading partner, according to six people close to the insurer who requested anonymity because of confidentiality agreements. A collapse of the insurer threatened to leave a hole of as much as \$20 billion in Goldman's side, several of these people said.

Days later, federal officials, who had let Lehman die and initially balked at tossing a lifeline to A.I.G., ended up bailing out the insurer for \$85 billion.

Their message was simple: Lehman was expendable. But if A.I.G. unspooled, so could some of the mightiest enterprises in the world.

A Goldman spokesman said in an interview that the firm was never imperiled by A.I.G.'s troubles and that Mr. Blankfein participated in the Fed discussions to safeguard the entire financial system, not his firm's own interests.

Yet an exploration of A.I.G.'s demise and its relationships with firms like Goldman offers important insights into the mystifying, virally connected — and astonishingly fragile — financial world that began to implode in recent weeks.

Although America's housing collapse is often cited as having caused the crisis, the system was vulnerable because of intricate financial contracts known as credit derivatives, which insure debt holders against default. They are fashioned privately and beyond the ken of regulators — sometimes even beyond the understanding of executives peddling them.

Originally intended to diminish risk and spread prosperity, these inventions instead magnified the impact of bad mortgages like the ones that felled [Bear Stearns](#) and Lehman and now threaten the entire economy.

In the case of A.I.G., the virus exploded from a freewheeling little 377-person unit in London, and flourished in a climate of opulent pay, lax oversight and blind faith in financial risk models. It nearly decimated one of the world's most admired companies, a seemingly sturdy insurer with a trillion-dollar balance sheet, 116,000 employees and operations in 130 countries.

"It is beyond shocking that this small operation could blow up the holding company," said Robert Arvanitis, chief executive of Risk Finance Advisors in Westport, Conn. "They found a quick way to make a fast buck on derivatives based on A.I.G.'s solid credit rating and strong balance sheet. But it all got out of control."

### The London Office

The insurance giant's London unit was known as A.I.G. Financial Products, or A.I.G.F.P. It was run with almost complete autonomy, and with an iron hand, by Joseph J. Cassano, according to current and former A.I.G. employees.

A onetime executive with [Drexel Burnham Lambert](#) — the investment bank made famous in the 1980s by the junk bond king [Michael R. Milken](#), who later pleaded guilty to six felony charges — Mr. Cassano helped start the London unit in 1987.

The unit became profitable enough that analysts considered Mr. Cassano a dark horse candidate to succeed [Maurice R. Greenberg](#), the longtime chief executive who shaped A.I.G. in

his own image until he was ousted amid an accounting scandal three years ago.

But last February, Mr. Cassano resigned after the London unit began bleeding money and auditors raised questions about how the unit valued its holdings. By Sept. 15, the unit's troubles forced a major downgrade in A.I.G.'s debt rating, requiring the company to post roughly \$15 billion in additional collateral — which then prompted the federal rescue.

Mr. Cassano, 53, lives in a handsome, three-story town house in the Knightsbridge neighborhood of London, just around the corner from Harrods department store on a quiet square with a private garden.

He did not respond to interview requests left at his home and with his lawyer. An A.I.G. spokesman also declined to comment.

At A.I.G., Mr. Cassano found himself ensconced in a behemoth that had a long and storied history of deftly juggling risks. It insured people and properties against natural disasters and death, offered sophisticated asset management services and did so reliably and with bravado on many continents. Even now, its insurance subsidiaries are financially strong.

When Mr. Cassano first waded into the derivatives market, his biggest business was selling so-called plain vanilla products like interest rate swaps. Such swaps allow participants to bet on the direction of interest rates and, in theory, insulate themselves from unforeseen financial events.

Ten years ago, a “watershed” moment changed the profile of the derivatives that Mr. Cassano traded, according to a transcript of comments he made at an industry event last year. Derivatives specialists from [J. P. Morgan](#), a leading bank that had many dealings with Mr. Cassano's unit, came calling with a novel idea.

Morgan proposed the following: A.I.G. should try writing insurance on packages of debt known as “collateralized debt obligations.” C.D.O.'s were pools of loans sliced into tranches and sold to investors based on the credit quality of the underlying securities.

The proposal meant that the London unit was essentially agreeing to provide insurance to financial institutions holding C.D.O.'s and other debts in case they defaulted — in much the same way some homeowners are required to buy mortgage insurance to protect lenders in case the borrowers cannot pay back their loans.

Under the terms of the insurance derivatives that the London unit underwrote, customers paid

a premium to insure their debt for a period of time, usually four or five years, according to the company. Many European banks, for instance, paid A.I.G. to insure bonds that they held in their portfolios.

Because the underlying debt securities — mostly corporate issues and a smattering of mortgage securities — carried blue-chip ratings, A.I.G. Financial Products was happy to book income in exchange for providing insurance. After all, Mr. Cassano and his colleagues apparently assumed, they would never have to pay any claims.

Since A.I.G. itself was a highly rated company, it did not have to post collateral on the insurance it wrote, analysts said. That made the contracts all the more profitable.

These insurance products were known as “[credit default swaps](#),” or C.D.S.'s in Wall Street argot, and the London unit used them to turn itself into a cash register.

The unit's revenue rose to \$3.26 billion in 2005 from \$737 million in 1999. Operating income at the unit also grew, rising to 17.5 percent of A.I.G.'s overall operating income in 2005, compared with 4.2 percent in 1999.

Profit margins on the business were enormous. In 2002, operating income was 44 percent of revenue; in 2005, it reached 83 percent.

Mr. Cassano and his colleagues minted tidy fortunes during these high-cotton years. Since 2001, compensation at the small unit ranged from \$423 million to \$616 million each year, according to corporate filings. That meant that on average each person in the unit made more than \$1 million a year.

In fact, compensation expenses took a large percentage of the unit's revenue. In lean years it was 33 percent; in fatter ones 46 percent. Over all, A.I.G. Financial Products paid its employees \$3.56 billion during the last seven years.

The London unit's reach was also vast. While clients and counterparties remain closely guarded secrets in the derivatives trade, Mr. Cassano talked publicly about how proud he was of his customer list.

At the 2007 conference he noted that his company worked with a “global swath” of top-notch entities that included “banks and investment banks, pension funds, endowments, foundations, insurance companies, hedge funds, money managers, high-net-worth individuals, municipalities and sovereigns and supranationals.”

Of course, as this intricate skein expanded over the years, it meant that the participants were linked to one another by contracts that existed for the most part inside the financial world's version of a black box.

Goldman Sachs was a member of A.I.G.'s derivatives club, according to people familiar with the operation. It was a customer of A.I.G.'s credit insurance and also acted as an intermediary for trades between A.I.G. and its other clients.

Few knew of Goldman's exposure to A.I.G. When the insurer's flameout became public, David A. Viniar, Goldman's chief financial officer, assured analysts on Sept. 16 that his firm's exposure was "immaterial," a view that the company reiterated in an interview.

Later that same day, the government announced its two-year, \$85 billion loan to A.I.G., offering it a chance to sell its assets in an orderly fashion and theoretically repay taxpayers for their trouble. The plan saved the insurer's trading partners but decimated its shareholders.

Lucas van Praag, a Goldman spokesman, declined to detail how badly hurt his firm might have been had A.I.G. collapsed two weeks ago. He disputed the calculation that Goldman had \$20 billion worth of risk tied to A.I.G., saying the figure failed to account for collateral and hedges that Goldman deployed to reduce its risk.

Regarding Mr. Blankfein's presence at the Fed during talks about an A.I.G. bailout, he said: "I think it would be a mistake to read into it that he was there because of our own interests. We were engaged because of the implications to the entire system."

Mr. van Praag declined to comment on what communications, if any, took place between Mr. Blankfein and the Treasury secretary, Mr. Paulson, during the bailout discussions.

A Treasury spokeswoman declined to comment about the A.I.G. rescue and Goldman's role. The government recently allowed Goldman to change its regulatory status to help bolster its finances amid the market turmoil.

### An Executive's Optimism

Regardless of Goldman's exposure, by last year, A.I.G. Financial Products' portfolio of credit default swaps stood at roughly \$500 billion. It was generating as much as \$250 million a year in income on insurance premiums, Mr. Cassano told investors.

Because it was not an insurance company, A.I.G. Financial Products did not have to report to state insurance regulators. But for the last four years, the London-based unit's operations,

whose trades were routed through Banque A.I.G., a French institution, were reviewed routinely by an American regulator, the Office of Thrift Supervision.

A handful of the agency's officials were always on the scene at an A.I.G. Financial Products branch office in Connecticut, but it is unclear whether they raised any red flags. Their reports are not made public and a spokeswoman would not provide details.

For his part, Mr. Cassano apparently was not worried that his unit had taken on more than it could handle. In an August 2007 conference call with analysts, he described the credit default swaps as almost a sure thing.

"It is hard to get this message across, but these are very much handpicked," he assured those on the phone.

Just a few months later, however, the [credit crisis](#) deepened. A.I.G. Financial Products began to choke on losses — though they were only on paper.

In the quarter that ended Sept. 30, 2007, A.I.G. recognized a \$352 million unrealized loss on the credit default swap portfolio.

Because the London unit was set up as a bank and not an insurer, and because of the way its derivatives contracts were written, it had to put up collateral to its trading partners when the value of the underlying securities they had insured declined. Any obligations that the unit could not pay had to be met by its corporate parent.

So began A.I.G.'s downward spiral as it, its clients, its trading partners and other companies were swept into the drowning pool set in motion by the housing downturn.

Mortgage foreclosures set off questions about the quality of debts across the entire credit spectrum. When the value of other debts sagged, calls for collateral on the securities issued by the credit default swaps sideswiped A.I.G. Financial Products and its legendary, sprawling parent.

Yet throughout much of 2007, the unit maintained that its risk assessments were reliable and its portfolios conservative. Last fall, however, the methods that A.I.G. used to value its derivatives portfolio began to come under fire from trading partners.

In February, A.I.G.'s auditors identified problems in the firm's swaps accounting. Then, three months ago, regulators and federal prosecutors said they were investigating the insurer's accounting.

This was not the first time A.I.G. Financial Products had run afoul of authorities. In 2004, without admitting or denying accusations that it helped clients improperly burnish their financial statements, A.I.G. paid \$126 million and entered into a deferred prosecution agreement to settle federal civil and criminal investigations.

The settlement was a black mark on A.I.G.'s reputation and, according to analysts, distressed Mr. Greenberg, who still ran the company at the time. Still, as Mr. Cassano later told investors, the case caused A.I.G. to improve its risk management and establish a committee to maintain quality control.

"That's a committee that I sit on, along with many of the senior managers at A.I.G., and we look at a whole variety of transactions that come in to make sure that they are maintaining the quality that we need to," Mr. Cassano told them. "And so I think the things that have been put in at our level and the things that have been put in at the parent level will ensure that there won't be any of those kinds of mistakes again."

At the end of A.I.G.'s most recent quarter, the London unit's losses reached \$25 billion.

As those losses mounted, and A.I.G.'s once formidable stock price plunged, it became harder for the insurer to survive — imperiling other companies that did business with it and leading it to stun the [Federal Reserve](#) gathering two weeks ago with a plea for help.

Mr. Greenberg, who has seen the value of his personal A.I.G. holdings decline by more than \$5 billion this year, dumped five million shares late last week. A lawyer for Mr. Greenberg did not return a phone call seeking comment.

For his part, Mr. Cassano has departed from a company that is a far cry from what it was a year ago when he spoke confidently at the analyst conference.

"We're sitting on a great balance sheet, a strong investment portfolio and a global trading platform where we can take advantage of the market in any variety of places," he said then. "The question for us is, where in the capital markets can we gain the best opportunity, the best execution for the business acumen that sits in our shop?"

This article has been revised to reflect the following correction:

Correction: September 30, 2008

Because of an editing error, an article on Sunday about the financial problems of American International Group referred incorrectly to the timing and participants at meetings at the New

York Federal Reserve between Saturday, Sept. 13, and Monday, Sept. 15. Although there were indeed meetings that weekend, there was also a separate meeting on Monday to discuss financial aid for A.I.G. Lloyd C. Blankfein, the chief executive of Goldman Sachs, was the only Wall Street chief executive who attended the Monday meeting, not the only chief executive who attended weekend meetings. Also, Henry M. Paulson Jr., the Treasury secretary, did not lead or attend the Monday meeting. (Both Mr. Blankfein and Mr. Paulson did attend the weekend meetings.)

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