Goldman reveals where bailout cash went

By Karen Mracek and Thomas Beaumont, Des Moines Register

Goldman Sachs sent $4.3 billion in federal tax money to 32 entities, including many overseas banks, hedge funds and pensions, according to information made public Friday night.

Goldman Sachs disclosed the list of companies to the Senate Finance Committee after a threat of subpoena from Sen. Chuck Grassley, R-Ia.

Asked the significance of the list, Grassley said, "I hope it's as simple as taxpayers deserve to know what happened to their money."

He added, "We thought originally we were bailing out AIG. Then later on ... we learned that the money flowed through AIG to a few big banks, and now we know that the money went from these few big banks to dozens of financial institutions all around the world."

Grassley said he was reserving judgment on the appropriateness of U.S. taxpayer money ending up overseas until he learns more about the 32 entities.

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Goldman Sachs (GS) received $5.55 billion from the government in fall of 2008 as payment for then-worthless securities it held in AIG. Goldman had already hedged its risk that the securities would go bad. It had entered into agreements to spread the risk with the 32 entities named in Friday’s report.

Overall, Goldman Sachs received a $12.9 billion payout from the government's bailout of AIG, which was at one time the world's largest insurance company.

Goldman Sachs also revealed to the Senate Finance Committee that it would have received $2.3 billion if AIG had gone under. Other large financial institutions, such as Citibank, JPMorgan Chase and Morgan Stanley, sold Goldman Sachs protection in the case of AIG's collapse. Those institutions did not have to pay Goldman Sachs after the government stepped in with tax money.

Shouldn't Goldman Sachs be expected to collect from those institutions "before they collect the taxpayers' dollars?" Grassley asked. "It's a little bit like a farmer, if you got crop insurance, you shouldn't be getting disaster aid."

Goldman had not disclosed the names of the counterparties it paid in late 2008 until Friday, despite repeated requests from Elizabeth Warren, chairwoman of the Congressional Oversight Panel.

"I think we didn't get the information because they consider it very embarrassing," Grassley said, "and they ought to consider it very embarrassing."

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The initial $85 billion to bail out AIG was supplemented by an additional $49.1 billion from the Troubled Asset Relief Program, known as TARP, as well as additional funds from the Federal Reserve. AIG's debt to U.S. taxpayers totals $133.3 billion outstanding.

"The only thing I can tell you is that people have the right to know, and he Fed and the public's business ought to be more public," Grassley said.

The list of companies receiving money includes a few familiar foreign banks, such as the Royal Bank of Scotland and Barclays.

DZ AG Deutsche Zantrake Genossenschaftz Bank, a German cooperative banking group, received $1.2 billion, more than a quarter of the money Goldman paid out.

Warren, in testimony Wednesday, said that the rescue of AIG "distorted the marketplace by turning AIG's risky bets into fully guaranteed transactions. Instead of forcing AIG and its counterparties to bear the costs of the company's failure, the government shifted those costs in full onto taxpayers."

Grassley stressed the importance of transparency in the marketplace, as well as in the government's actions.

"Just like the government, markets need more transparency, and consequently this is some of that transparency because we've got to rebuild confidence to make the markets work properly," Grassley said.

AIG received the bailout of $85 billion at the discretion of the Federal Reserve Bank of New York, which was led at the time by Timothy Geithner. He now is U.S. treasury secretary.

"I think it proves that he knew a lot more at the time than he told," Grassley said. "And he surely knew where this money was going to go. If he didn't, he should have known before they let the money out of their bank up there."

An attempt to reach Geithner Friday night through the White House public information office was unsuccessful.

Grassley has for years pushed to give the Government Accountability Office more oversight of the Federal Reserve.

U.S. Rep. Bruce Braley, a Waterloo Democrat, said he would propose that the House subcommittee on oversight and investigations convene hearings on the need for more Federal Reserve oversight. Braley is a member of the subcommittee.

Braley said of Geithner, "I would assume he would be someone we would want to hear from because he would have firsthand knowledge."

Braley also noted that the AIG bailout was negotiated under President George W. Bush, a Republican.

He said he was confident that the financial regulatory reform bill signed by President Obama this week would help provide better oversight than the AIG bailout included.

"There was no regulatory framework in place," Braley said. "We had to put something in place to begin reining them in. I'm confident they will begin to be able to do that."

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