Written by **Gary Benoit** on October 30, 2008

# A.I.G. Burning Through Bailout Loan

Though the insurance giant has so far refused to provide detailed accounts of what specifically it is using most of the money on, much of that information should be revealed in its next quarterly report. The Fed is reporting that $90 billion has already been drawn down, and of that, the fate of about $59 billion is so far unknown.

According to the company, the billions are going to everything from paying for day-to-day operations to propping up its securities-lending program and honoring its guaranteed investment contracts. Tens of billions have also gone to posting collateral with other companies in the financial industry as required by its derivatives contracts, numbers which will continue to grow if the housing market doesn't recover soon.

To date, about $18 billion has been used in its securities-lending division. The company suffered huge losses on investments made with money it had obtained loaning out securities, so when the borrowers returned the securities, there wasn't enough money to repay them. A.I.G. is now sending those bad investments to the Federal Reserve in exchange for cash so it can repay its customers. Another $13 billion or so was used to make good on guaranteed investment contracts after the company's credit-rating was downgraded in September, giving customers the right to withdraw the money immediately. As far as its daily operations go, the company recently came under fire for spending nearly half a million dollars on a trip to a spa resort in California for executives of one of its subsidiaries.

According to a *New York Times* article entitled "A question for A.I.G.: Where did the cash go?" most of the money is being used as collateral for credit-default swaps and other derivatives contracts which were at the center of the company's meltdown. The same article explains that even A.I.G. doesn't know how much money will be needed to support these insurance contracts that were written for hundreds of billions of dollars worth of debt, much of it tied to mortgages. And if the company ends up needing more money, an increasingly likely scenario, especially if the economy continues on its downward slide, the federal government and the Federal Reserve are expected to cough it up. Bill Bergman, a senior equity analyst at the market research company Morningstar, was quoted by the *New York Times'* as saying: "We may be better off in the long run letting the losses be realized and letting the people who took the risk bear the loss."

In a free market, the people who took the risks would have to bear the losses. The fact that the gains are private and the losses are being socialized should outrage all American taxpayers, as should the government's counterproductive intervention in the economy.

*AP Images*