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Honorable Barney Frank
Chairman, House Committee on Financial Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Re: AIG 2008 Retention Bonuses

Dear Chairman Frank:

I am writing to provide you and your Committee with information regarding an ongoing investigation my Office has been conducting of executive compensation at American International Group ("AIG"). I hope this information will be useful to the Committee at its hearing on AIG tomorrow.

We learned over the weekend that AIG had, last Friday, distributed more than \$160 million in retention payments to members of its Financial Products Subsidiary, the unit of AIG that was principally responsible for the firm's meltdown. Last October, AIG agreed to my Office's demand that no payments be made out of its \$600 million Financial Products deferred compensation pool. While this was a positive step, we were dismayed to learn after the fact that AIG had made multi-million dollar payments out of its separate Financial Products retention plan on Friday.

AIG now claims that it had no choice but to pay these sums because of the unalterable terms of the plan. However, had the federal government not bailed out AIG with billions in taxpayer funds, the firm likely would have gone bankrupt, and surely no payments would have been made out of the plan. My Office has reviewed the legal opinion that AIG obtained from its own counsel, and it is not at all clear that these lawyers even considered the argument that it is only by the grace of American taxpayers that members of Financial Products even have jobs, let alone a pool of retention bonus money. I hope the Committee will take up this issue at its hearing tomorrow.

Furthermore, we know that AIG was able to bargain with its Financial Products employees since these employees have agreed to take salaries of \$1 for 2009 in exchange for receiving their retention bonus packages. The fact that AIG engaged in this negotiation flies in

the face of AIG's assertion that it had no choice but to make these lavish multi-million dollar bonus payments. It appears that AIG had far more leverage than they now claim.

AIG also claims that retention of individuals at Financial Products was vital to unwinding the subsidiary's business. However, to date, AIG has been unwilling to disclose the names of those who received these retention payments making it impossible to test their claim. Moreover, as detailed below, numerous individuals who received large "retention" bonuses are no longer at the firm. Until we obtain the names of these individuals, it is impossible to determine when and why they left the firm and how it is that they received these payments.

If AIG were confident in its claim that those who received these large bonuses were so vital to the orderly unwinding of the unit, one would expect them to freely provide the names and positions of those who got these bonuses. My Office will continue to seek an explanation for why each one of these individuals was so crucial to keep aboard that they were paid handsomely despite the unit's disastrous performance.

As you may know, my Office yesterday subpoenaed AIG for the names of those who received these bonuses, and we plan to do everything necessary to enforce compliance. American taxpayers deserve to know where their money is going, and AIG's intransigence and desire to obscure who received these payments should not be tolerated. Already my Office has determined that some of these bonuses were staggering in size. For example:

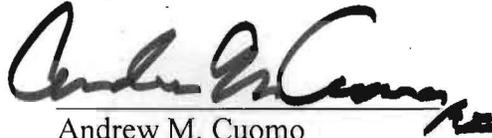
- The top recipient received more than \$6.4 million;
- The top seven bonus recipients received more than \$4 million each;
- The top ten bonus recipients received a combined \$42 million;
- 22 individuals received bonuses of \$2 million or more, and combined they received more than \$72 million;
- 73 individuals received bonuses of \$1 million or more; and
- Eleven of the individuals who received "retention" bonuses of \$1 million or more are no longer working at AIG, including one who received \$4.6 million;

Again, these payments were all made to individuals in the subsidiary whose performance led to crushing losses and the near failure of AIG. Thus, last week, AIG made more than 73 millionaires in the unit which lost so much money that it brought the firm to its knees, forcing a taxpayer bailout. Something is deeply wrong with this outcome. I hope the Committee will address it head on.

We have also now obtained the contracts under which AIG decided to make these payments. The contracts shockingly contain a provision that required most individuals' bonuses to be 100% of their 2007 bonuses. Thus, in the Spring of last year, AIG chose to lock in bonuses for 2008 at 2007 levels despite obvious signs that 2008 performance would be disastrous in comparison to the year before. My Office has thus begun to closely examine the circumstances under which the plan was created.

I look forward to continuing to cooperate with the Committee in any way possible to ensure that taxpayer funds are not misspent on unjustified bonuses or otherwise misused.

Very truly yours,

A handwritten signature in black ink, appearing to read "Andrew M. Cuomo", with a stylized flourish at the end.

Andrew M. Cuomo
Attorney General of the
State of New York