

ONE HUNDRED TENTH CONGRESS
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House of Representatives
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Statement of Rep. Tom Davis
Ranking Republican Member
Committee on Oversight and Government Reform
“The Causes and Effects of the AIG Bailout”
October 7, 2008

This hearing delves into the murky world of insurance underwriting and how a company like AIG moved into new and unfamiliar markets. I think the Committee will learn that AIG and their collateralized debt obligations (CDOs) were directly tied to the actions of Fannie Mae and Freddie Mac. As Freddie and Fannie went, so went AIG, so went Lehman, and so went the entire American financial market.

I want to make this perfectly clear: I’m not here to defend AIG and how they thought they could make money from these CDOs. I will not and cannot defend the compensation AIG executives were afforded. However, I think it’s clear AIG made bad business decisions based, in part, on what others were portraying as solid investments.

AIG executives should have been smarter, but they weren’t. They should have seen the warning signs, but they didn’t. They should have questioned the exotic products and the agencies that rated them as AAA, but they didn’t. And now the taxpayer is left holding the bag.

We couldn’t let AIG fail because it insures too many people – ordinary individuals, your neighbors, mom-and-pop institutions, and other companies that employ millions of Americans. This is a company that truly was considered too big to fail. I wish we weren’t put in the position to have to bail them out, but inaction would have been more disastrous than intervention.

Again, I want to caution everyone that the words we speak today truly matter. We should be diligent and not speculative in our oversight. We need to get to the root of the problems that caused the financial crisis. At the same time, we need to be careful not to cause a deeper one. We need to stay calm, hope the markets do the same, and allow the financial package enacted last week to play out.