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Yale Program on Financial Stability
Lessons Learned

Chester B. Feldberg

By Maryann Haggerty

Chester B. Feldberg worked for the Federal Reserve Bank of New York (FRBNY) for 36 years in a variety of roles. In the aftermath of the Global Financial Crisis, he served as a trustee for the AIG Credit Trust Facility (2009-2011). The Trust was established in early 2009 to hold the equity stock of American International Group Inc. (AIG) that the U.S. government had received as a result of the 2008 AIG bailout. The three trustees were responsible for voting the stock, ensuring satisfactory corporate governance at AIG, and eventually disposing of the stock.

When he was named as a trustee, Feldberg was retired. Immediately previous, he had been chairman of Barclays Americas (2000-2008). He had retired from the Federal Reserve System in 2000. At that time, he was executive vice president of the Bank Supervision Group. Earlier, he ran the FRBNY's discount window, and worked on teams involved with several financial system crises. This "Lesson Learned" is based on an interview with Mr. Feldberg.

Each crisis is different, so do whatever it takes.

During his career with the Federal Reserve Bank of New York, Feldberg had hands-on experience in how the government handled a string of high-profile crises. But in his view, the Global Financial Crisis eclipsed them all. He said:

> My view is that the 2007-2008 crisis was much larger and more dangerous than all of the other crises I talked about, on a combined basis. In fact, I have told people that I was happy that I was retired by the time the 2007 crisis developed, because there was a lot of uncertainty as to how and whether it was going to be effectively resolved. I don't see how the experiences with the earlier crises would have helped us get through 2007-2008.
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> To my mind, that crisis confirmed my long-held view that when the financial system is in serious danger of implosion, the Fed and the Treasury will have to do whatever it takes to manage the crisis. This, as it happened, involved thinking out of the box and without regard to the constraints of past precedent. That process may not have been pretty, and it may not have been perfect, but I think it's clear that it did save the day.

Holding equity helped the government make the best of the AIG bailout.

Feldberg came out of retirement in 2009 to take a position as a trustee of the AIG Credit Facility Trust, the entity that held the AIG common stock the government received in return for rescuing the insurance company. The Trust was charged with voting the stock, ensuring satisfactory corporate governance at AIG, and eventually disposing of the stock. Some pre-bailout stockholders sued, taking their fight all the way to the Supreme Court, but they lost. Holding the stock gave the government influence over AIG in the years following the rescue, Feldberg said.

> Now, the shareholders obviously weren’t happy with having to give away 80 percent of the company in order to get federal government support, but what got pointed out to them on many occasions is that, they may have lost 80 percent of the value, but if the government hadn't stepped in, they would have lost 100 percent. My view was that the government needed to offer tough love to AIG. It was seeking a huge amount of money. I thought that the precedential implications of the arrangement could come back and bite the government in the future, unless the terms of the agreement were such that future companies would be discouraged from seeking federal help, except in the most dire of circumstances.
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> I can understand why [former AIG chairman and CEO] Hank Greenberg and the other shareholders didn’t like it. I can understand why the shareholders didn’t like the terms of the government’s deal. But from the government’s standpoint, it gave the government a tool and a lever to influence as necessary the decisions being made by the company and to protect the taxpayers’ investment.

The trustees proved their independence.

Some critics in Congress and elsewhere questioned how independent the trustees were from the Treasury Department and the Federal Reserve System. But Feldberg said that despite the close relationships he and his colleagues kept up with their government counterparts, they maintained their independence. “We wanted to make it clear at the outset that we expected to operate independently and not as a rubber stamp for decisions made by the Federal Reserve or the Treasury Department,” he said. As an example, he pointed to the search for new members of the AIG board of directors. The trustees had hired a headhunter, interviewed candidates, and put together a list of six people who would be qualified and willing. He recalled:

> Before going forward, really as a courtesy, but just in case they knew something we didn’t know, we circulated the names to the Fed and the Treasury. … While the Fed came back with no suggestions, the Treasury came back with six new names to replace the six names we had come up with. I mentioned earlier the process we went through to come up with those names. It was very intense, it was very serious, and it was very productive. As I recall, the Treasury’s names for the most part, were former Treasury officials at below top levels. They were proposed not because of their background in divestment scenarios, not because of their compensation experience, not because of their accounting background, not because they were capable of becoming chairman of the board if a need arose, but apparently because these were

> people known to the Treasury. We rejected all six names and went with the six names that we had. If that's not independence, I don't know what independence is.

In retrospect, the Trust structure may not have been necessary.

The AIG Credit Facility Trust was established, Feldberg said, because the Government did not want to hold the AIG stock directly "because of concerns about the appearance or the reality of conflicts of interest." He added, "It was certainly the more cautious way to proceed, but was it the necessary way to proceed? I don't know. I didn't really think about it at the time. They said conflicts of interest and I thought, 'bad thing.'"

The Trust held 80 percent of AIG's stock. In a later phase of the bailout, the Treasury Department acquired another 8 percent. As a result, Feldberg said:

> You now had equity stock in AIG being held for the benefit of the government by two different groups, the Trust and the Treasury Department. … If the Treasury Department could hold 8 percent of the equity stock without a conflict of interest, why couldn't it hold 88 percent? Is the critical difference that in the latter case it would have been the majority shareholder? Maybe so, but I guess all I'm saying is that if a way could have been found for the Treasury and/or the Fed to hold the stock during the period of the financing of AIG, that would have eliminated the need for a third player in the process. Even if we didn't have our own cast of thousands, we were still doing a lot of work and had a lot of ideas and interfacing with the Fed, the Treasury, AIG, just adding a further complication to the process.
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> I think that the trustees made a contribution, particularly with getting AIG's governance on a better footing, but I have no reason to think that the Fed or the Treasury couldn't have gotten to the same point. So that's a long way of saying that if you could get over the potential conflict of interest hurdle, I'm not sure you needed to have another player in the process. But that's my own personal view, and I haven't really spent a lot of time thinking about all of the implications.

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