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A.I.G. Said to Dismiss Goldman

By LOUISE STORY and ERIC DASH
Published: May 6, 2010

As its legal troubles mount, [Goldman Sachs](#) is losing a big corporate client: the [American International Group](#).

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Andrew Harrer/Bloomberg News

Lloyd C. Blankfein, left, chairman and chief of Goldman Sachs.

A.I.G., the insurance giant that planned to retain Goldman to help reorganize its businesses, has replaced Goldman as its main corporate adviser, according to three people with knowledge of the matter, which was not intended to be public. Instead, the insurer is turning to [Citigroup](#) and [Bank of America](#).

The move is the first in what some analysts warn could be a series of defections among Goldman's clients after accusations — vigorously denied by Goldman — that it defrauded customers in a complex mortgage investment. A Goldman spokesman declined to comment.

As Goldman's legal problems have escalated — first with a civil fraud suit filed by the [Securities and Exchange Commission](#), and then with a federal criminal investigation — some investors have grown increasingly anxious about the potential damage to Goldman's reputation and business.

A.I.G.'s decision leaves Goldman out of the mix at a pivotal moment for the insurance company and breaks a traditionally close relationship. A.I.G., which has yet to repay billions of dollars of federal aid, helped to insure billions of dollars of Goldman's mortgage securities, including seven deals like the one involved in the securities fraud case filed last month by the S.E.C.

The news comes as Goldman executives prepare to meet with shareholders on Friday at the bank's annual meeting.

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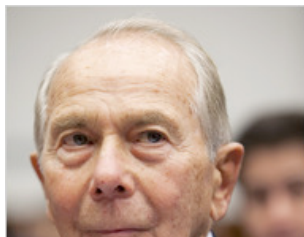
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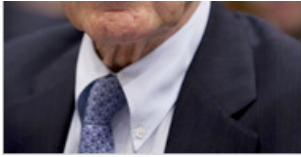


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Jay Premack/Bloomberg News
Maurice R. Greenberg, the former chief of A.I.G.

Goldman's chairman and chief executive, [Lloyd C. Blankfein](#), will confront shareholders who are anxious over the S.E.C. case and a continuing criminal investigation into the bank's mortgage trading unit.

In what some characterize as a referendum on Mr. Blankfein, shareholders will also vote whether to separate the roles of chairman and chief executive. Many corporations, including major banks, have separated those roles to improve corporate governance.

While A.I.G. is the first company that is known to have canceled major work with Goldman, European officials and some local officials in the United States have also said they are reconsidering their relationships with the bank. Several shareholders have filed suits against Goldman and its board and executives, saying they should have disclosed the S.E.C. investigation earlier.

Goldman executives have told analysts that the bank's business has not suffered since the case. The bank's most recent quarterly profit — \$3.3 billion — was a huge success by almost any standard, and Goldman officials said the results were proof that they were doing right by their clients.

Still, Goldman's share price has fallen about 20 percent since the S.E.C. complaint was announced.

An A.I.G. spokeswoman and a Citigroup spokesman declined to comment. Bank of America did not immediately respond to requests for comment.

A.I.G. met with its two new advisers on Thursday, according to the people with knowledge of the situation. The issue at hand is how A.I.G. can sell off parts of its business to help it return government bailout money while still preserving valuable units that will be part of a surviving company. Once involved in practically every insurance business, A.I.G. is trying to redefine its role in the industry.

The company's relationship with Goldman dates back decades. A.I.G.'s former chief executive, [Maurice R. Greenberg](#), had a long relationship with Goldman's leaders. A.I.G. and Goldman briefly considered merging, in the late 1990s.

But this relationship proved disastrous for A.I.G. in the mortgage crisis. A.I.G. insured some \$20 billion of mortgage securities for Goldman, including seven similar to the deal at the center of the S.E.C. case, known as Abacus 2007-AC1, though it did not insure that specific deal.

In 2007, Goldman put on a negative bet against housing — what its chief financial officer, David A. Viniar, called “the big short” — and the bank issued aggressive demands for A.I.G. to put up collateral for some of its trades with Goldman. Those demands from Goldman and later other banks [contributed to A.I.G.'s liquidity crisis](#) and eventually led to a government bailout.

After the government stepped in, Goldman was among the largest recipients of money from A.I.G. when the insurance company paid its counterparties 100 cents on the dollar to end contracts tied to mortgage investments.

A.I.G. has been through a series of executive changes since its collateral battle with Goldman, and the insurance giant continued to hire Goldman for certain assignments, like its recent sales of its Asian unit, A.I.A., as well as Alico, its overseas life and health

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insurance business.

Earlier this year, A.I.G. heard pitches from various banks on its overall strategy. It indicated to several parties that Goldman had won that business. Goldman had not begun significant work on A.I.G.'s strategy.

Citigroup also worked with A.I.G. on its sales of A.I.A. and Alico, and Bank of America has been helping the insurance company with some financing. But the change last week was a step up in both of their roles to fill the gap left by Goldman.

Goldman's employees, top to bottom, have been reassuring clients in recent weeks to try to retain their business. On Wednesday, Mr. Blankfein held a conference call with wealthy individual clients whose savings are managed by the bank.

Still, last week the Teachers' Retirement System of Oklahoma warned Goldman's asset management division that it was "on alert" and that the state pension might stop working with Goldman because of the S.E.C. accusations.

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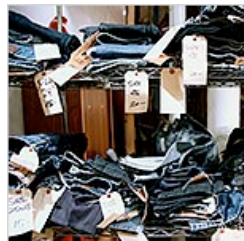
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