

[On AIG, Dinallo Goes Against Ex-Boss Spitzer](#)

Three years after Eliot Spitzer decapitated the world's largest insurer, his protégé has stepped in to try to save the company from collapse.

New York's insurance superintendent, Eric Dinallo, agreed yesterday to extend a lifeline to American International Group by easing state regulatory restrictions. It is an odd twist in the legacy of Mr. Spitzer, who crusaded against the company's management in his days as the state's top prosecutor. Shortly after he was elected governor, Mr. Spitzer hired Mr. Dinallo, who had served as his right-hand man in the attorney general's office.

Under the plan, New York State will essentially allow the insurance company to borrow \$20 billion from itself, hopefully granting it time to raise some much-needed capital.

Mr. Dinallo spent the weekend hammering out the deal with executives. In the longer term, he will also work with the Federal Reserve to negotiate a possible loan for the company, which holds \$1 trillion in assets.

"We are working closely with AIG to craft a transaction that will stabilize an important New York insurance company, while protecting policyholders," Mr. Dinallo said in a statement.

Yesterday's attempted rescue of AIG came as Wall Street reeled from the fall of another major financial institution, Lehman Brothers Holdings Inc., and the sale of a third, Merrill Lynch, to Bank of America.

AIG's relationship with state officials was not as rosy a few years ago, when Attorney General Spitzer launched an aggressive fraud investigation against its CEO, Maurice "Hank" Greenberg. Mr. Greenberg was subsequently forced to step down.

Mr. Dinallo left for private practice in 2003, before Mr. Spitzer launched his crusade against AIG. Mr. Dinallo had previously served as the head of the Investment Protection Bureau, which investigated Wall Street cases for the attorney general's office. When Mr. Spitzer became governor in 2007, he tapped Mr. Dinallo to lead the state's insurance department.

Mr. Dinallo has since taken bold positions in his dealings with insurance companies, according to the executive director of the advocacy organization United Policyholders, Amy Bach.

"He's not as high-profile or as aggressive as Mr. Spitzer, certainly, but he's been upholding Spitzer's legacy quite well as an insurance regulator," Ms. Bach said.

In January, Mr. Dinallo reportedly took a Spitzer-like tone with a group of top financial executives who had convened to coordinate a bailout for bond insurers. He blamed them for the mortgage meltdown that had caused the problem, according to the Wall Street Journal.

"You people created this mess," he said. "And the headline on this is going to be: 'How Wall Street Ate Main Street.'"

While AIG's leadership arguably never recovered after Mr. Greenberg's ouster, its current problems stem from the subprime mortgage crisis. It had been racing to secure new capital — to the tune of \$40 billion — to avoid a credit rating downgrade that could doom the company. But the downgrades were announced last night despite the state's financial plan.

Governor Paterson hailed the state's financing plan, saying it is "not a government bailout."

"Wall Street's continuing problems should serve as a stark reminder that this recession is far from over," he said in a statement. "On a state level, we were able to reach a market-based solution that will stabilize AIG at no cost to New York taxpayers."

AIG did not return calls for comment. A spokesman for Mr. Greenberg, Ken Frydman, declined to comment.