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Ratings agency Standard and Poor's fined \$1.5bn for role in 2008 GFC

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More than seven years after the Great Recession, the US has fined ratings agency Standard and Poor's \$1.5 billion. Standard and Poor's decided to settle the allegations that it overrated bonds for subprime mortgages, which is one of the reasons for the financial collapse.

Michael Vincent

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ELEANOR HALL: More than seven years after the start of the global financial crisis, the US government has fined the ratings agency S&P (Standard and Poor's) for its role in overrating the bonds for the subprime mortgages that helped spark the financial collapse.

S&P decided to settle the allegations. The government has fined it \$1.5 billion.

North America correspondent Michael Vincent reports.

MICHAEL VINCENT: Standard and Poor's was supposed to be a gatekeeper in the financial world. Now it's been accused of fraud of inflating the quality of the bonds it was rating to keep market share and profits.

US associate attorney-general Stuart Delery.

STUART DELERY: That S&P misrepresented itself to the investors and the public, putting profits ahead of unbiased ratings in a manner that fuelled the overvaluation of RMBS (Residential Mortgage-Backed Securities) and contributed to the financial crisis.

MICHAEL VINCENT: S&P are paying the highest fine ever recovered from a ratings agency - US\$1.5 billion.

STUART DELERY: And the company will, through this settlement, pay substantially more than it earned from rating the securities at issue in our lawsuit.

Defrauding the American people has consequences.

MICHAEL VINCENT: Now some of the reasons for the 2008 financial crisis are being revisited and in some cases turned on their heads.

A team from Duke, Dartmouth and MIT have just had their findings published by the National Bureau of Economic Research.

It found mortgage lending was not targeted at the poorest of Americans in the most part, that the previous research had focussed on the postcodes of mortgages, which revealed poor neighbourhoods, but the people taking out the loans were actually better off. It was in part gentrification.

Antoinette Schoar is Professor of Finance at MIT.

ANTOINETTE SCHOAR: Some of the mistaken analysis might have been driven by ignoring gentrification.

So, you know, that actually the people who are buying, even in poorer neighbourhoods, were richer people who were moving into those neighbourhoods.

MICHAEL VINCENT: Another key finding was that the majority of losses - based on the amount of amount per mortgage - was actually amongst the middle and upper classes.

And finally, that individuals were not taking on more and more debt, that it was that more Americans as a whole were borrowing up to the hilt, creating a systemic risk.

Professor Schoar:

ANTOINETTE SCHOAR: Now that doesn't mean that some mortgage brokers were not abusively either lending to people or deceiving them, we are not saying that, but we are saying is that on average, that behaviour was not predominant in the data and it was defiantly not what contributed to dominance to the default post-2008.

MICHAEL VINCENT: So was it simply greed then amongst the middle class?

ANTOINETTE SCHOAR: I'm always very hesitant to put labels of blame on people, because ultimately I am an economist, but maybe let's say it in a different way.

I think what it was, and you might want to call it greed or you might call it, you know, mistaken optimism about house price movements, but you know it looks much more that what was going on was that people really believed that this increase in house prices would go on for a long time and the buyers and the banks also were kind of too much trusting and therefore were willing to kind of buy into what looked like an ever increasing house price.

MICHAEL VINCENT: Professor Schoar says she hopes a better understanding of the crisis will create policies to prevent another one.

In the meantime, the US government has vowed to continue pursuing companies for the part they played.

This is Michael Vincent in Washington for The World Today.