Standard and Poor's to Pay $7 Million to Massachusetts for Making False Statement Regarding Its Ratings Methodology

S&P to Pay More Than $60 Million in Settlements to Resolve Allegations it Made False and Misleading Statements Regarding its Ratings of Certain 2011 Commercial Mortgage Backed Securities; S&P to Cease Rating Conduit/Fusion CMBS for One Year

BOSTON – Standard & Poor's Financial Services, LLC (S&P) will pay $7 million to Massachusetts over allegations it made false and misleading public statements concerning the methodology it used to rate certain commercial mortgage backed securities (CMBS) in 2011, Attorney General Martha Coakley announced today.

In addition, S&P is paying $42 million to the SEC and $12 million to the New York Attorney General's Office to resolve the CMBS ratings allegations described in today's settlement. S&P is also paying the SEC an additional $16 million to resolve unrelated allegations set forth in two other SEC orders issued today. S&P has made factual admissions concerning its methodology for rating the 2011 transactions at issue, and will refrain from rating U.S. conduit/fusion CMBS transactions for one year.

"Credit rating agencies are required to accurately disclose their ratings criteria to ensure transparency and protect investors," AG Coakley said. "We will not tolerate credit rating agencies continuing to compromise the integrity of their ratings for their own financial gain while putting investors and the financial markets at risk."

The settlements resolve concurrent investigations and resulting allegations that S&P published false and misleading statements as to the amount of stress it applied to certain conduit/fusion CMBS transactions between February and July 2011. A conduit/fusion CMBS is a structured debt security, payment of which is backed by a pool of loans secured by commercial real estate, and broadly divided into five categories: retail, office, multifamily, lodging, and industrial.

According to the Commonwealth's allegations, S&P's market position for rating conduit/fusion CMBS declined in the years following the financial crisis, which essentially halted the CMBS ratings market. When issuers started marketing these transactions again in 2010, S&P's market share did not rebound to its pre-crisis level. Instead, S&P was losing market share to other nationally-recognized rating organizations, due to the conservative nature of the firm's CMBS ratings criteria. In late 2010, S&P relaxed its conduit/fusion CMBS ratings methodology, rendering its ratings of the 2011 transactions at issue more commercially attractive to issuers and leaving investors in the transactions less protected from defaults and losses. In reports S&P published to the market in connection with its ratings of the transactions, S&P failed to disclose its application of the relaxed ratings methodology and misrepresented it was applying a more conservative methodology.

The AG's Office alleges S&P's failure to disclose its relaxed ratings methodology was false and misleading and constituted a violation of the Massachusetts Consumer Protection Act. S&P ultimately issued ratings for six of the eight conduit/fusion CMBS transactions, collecting approximately $7 million in fees, and withdrew preliminary ratings of the remaining two.

AG Coakley's office has been a national leader in holding banks and investment giants accountable for their role in the economic crisis, including investigating and holding Wall Street securitization firms accountable for their role in the subprime mortgage crisis. More information about AG Coakley's work during the lending crisis can be found here, along with a report that offers a transparent record of actions taken by the AG's Office since 2007.

This settlement was achieved as a result of a joint federal-state collaboration among the Massachusetts Attorney General's Office, the U.S. Securities and Exchange Commission, and the New York Attorney General's Office, and was handled by Assistant Attorneys General Gillian Feiner, Jacqueline Rompre and Division Chief Stephanie Kahn of Attorney General Coakley's Consumer Protection Division.

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