Standard & Poor's suspended from rating some mortgage bonds after $77m settlement

Ratings agency has struck a deal with US regulators over misleading descriptions in 2012

S&P agreed to pay $77m (£60m) to settle the claims from the SEC and other regulators Photo: AFP

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Standard & Poor’s is paying $77m (£60m) and will be banned from rating certain bonds for a year as part of a deal to settle claims it issued misleading ratings for commercial mortgage-backed securities (CMBS).

The US Securities and Exchange Commission (SEC) said the settlement was a result of its first ever action against a major credit ratings firm.

S&P has also settled with the attorneys general in New York and Massachusetts. These cases are separate to an ongoing probe into S&P's ratings leading up to the 2008 financial crisis.

The agency has agreed to take a one-year “timeout” from rating bonds within so-called "conduit fusion" CMBS, the biggest type of such bonds in the United States. These bonds combine large numbers of relatively small commercial property loans with bigger real estate debts.

The ratings company said in 2011 that it had discovered potentially conflicting sums in its models, but when it returned to the market a year later it used misleading claims that its system could now withstand Great Depression-era levels of economic stress in an attempt to recoup some of the business it had lost, according to the SEC.

"The settlements do not affect any outstanding S&P Ratings credit ratings or the manner in which S&P Ratings conducts credit analysis under the relevant criteria," said the company, noting that it had neither admitted nor denied the claims as part of the deal.

“Investors rely on credit rating agencies like Standard & Poor’s to play it straight when rating complex securities like CMBS,” said Andrew Ceresney, director of the SEC enforcement division. “But Standard & Poor’s elevated its own financial interests above investors by loosening its rating criteria to obtain business and then obscuring these changes from investors.”

The settlement is separate to a Justice Department case examining whether S&P gave out overly optimistic ratings to sub-prime mortgage products in the run-up to the 2008 credit crunch.