[redacted]

Department of Justice

Office of Public Affairs

FOR IMMEDIATE RELEASE Tuesday, February 3, 2015

Justice Department and State Partners Secure $1.375 Billion Settlement with S&P for Defrauding Investors in the Lead Up to the Financial Crisis

Attorney General Eric Holder announced today that the Department of Justice and 19 states and the District of Columbia have entered into a $1.375 billion settlement agreement with the rating agency Standard & Poor's Financial Services LLC, along with its parent corporation McGraw Hill Financial Inc., to resolve allegations that S&P had engaged in a scheme to defraud investors in structured financial products known as Residential Mortgage-Backed Securities (RMBS) and Collateralized Debt Obligations (CDOs). The agreement resolves the department's 2013 lawsuit against S&P, along with the suits of 19 states and the District of Columbia. Each of the lawsuits allege that investors incurred substantial losses on RMBS and CDOs for which S&P issued inflated ratings that misrepresented the securities' true credit risks. Other allegations assert that S&P falsely represented that its ratings were objective, independent and uninfluenced by S&P's business relationships with the investment banks that issued the securities.

The settlement announced today is comprised of several elements. In addition to the payment of $1.375 billion, S&P has acknowledged conduct associated with its ratings of RMBS and CDOs during 2004 to 2007 in an agreed statement of facts. It has further agreed to formally retract an allegation that the United States' lawsuit was filed in retaliation for the defendant's decisions with regard to the credit of the United States. Finally, S&P has agreed to comply with the consumer protection statutes of each of the settling states and the District of Columbia, and to respond, in good faith, to requests from any of the states and the District of Columbia for information or material concerning any possible violation of those laws.

"On more than one occasion, the company's leadership ignored senior analysts who warned that the company had given top ratings to financial products that were failing to perform as advertised," said Attorney General Holder. "As S&P admits under this settlement, company executives complained that the company declined to downgrade underperforming assets because it was worried that doing so would hurt the company's business. While this strategy may have helped S&P avoid disappointing its clients, it did major harm to the larger economy, contributing to the worst financial crisis since the Great Depression."

Attorney General Holder was joined in announcing the settlement with Acting Associate Attorney General Stuart F. Delery, Acting Assistant Attorney General for the Civil Division Joyce R. Branda and Acting U.S. Attorney for the Central District of California Stephanie Yonekura. Also joining the Department of Justice in making this announcement are the attorneys general from Arizona, Arkansas, California, Connecticut, Colorado, Delaware, Idaho, Illinois, Indiana, Iowa, Maine, Mississippi, Missouri, New Jersey, North Carolina, Pennsylvania, South Carolina, Tennessee, Washington and the District of Columbia.

"This resolution provides further proof that the Department of Justice will vigorously pursue investigations and litigation, no matter how challenging, to protect the best interests of the American people," said Acting Associate Attorney General Delery. "As part of the resolution, S&P admitted facts demonstrating that it misrepresented itself to investors and the public, allowing the pursuit of profits to bias its ratings. S&P also agreed to retract its unsubstantiated claim that this lawsuit was initiated in retaliation for the decisions S&P made about the credit rating of the U.S. government. Today's announcement is the latest result of our dedicated effort to address misconduct of every kind that contributed to the financial crisis."

"Today's historic settlement demonstrates that we will use all of our resources and every legal tool available to hold accountable those who commit financial fraud," said Acting Assistant Attorney General Branda. "Thanks to the tireless efforts of our team in Washington and California, S&P has not only paid a record-setting penalty, but has now admitted to the American people facts that make clear its own unlawful role in the financial crisis."

Half of the $1.375 billion payment – or $687.5 million – constitutes a penalty to be paid to the federal government and is the largest penalty of its type ever paid by a ratings agency. The remaining $687.5 million will be divided among the 19 states and the District of Columbia. The allocation among the states and the District of Columbia reflects an agreement between the states on the distribution of that money.

In its agreed statement of facts, S&P admits that its decisions on its rating models were affected by business concerns, and that, with an eye to business concerns, S&P maintained and continued to issue positive ratings on securities despite a growing awareness of quality problems with those securities. S&P acknowledges that:

- S&P promised investors at all relevant times that its ratings must be independent and objective and must not be affected by any existing or potential business relationship;

- S&P executives have admitted, despite its representations, that decisions about the testing and rollout of updates to S&P's model for rating CDOs were made, at least in part, based on the effect that any update would have on S&P's business relationship with issuers;

- Relevant people within S&P knew in 2007 many loans in RMBS transactions S&P were rating were delinquent and that losses were probable;

- S&P representatives continued to issue and confirm positive ratings without adjustments to reflect the negative rating actions that it expected would come.

In addition, S&P acknowledges that the voluminous discovery provided to S&P by the United States in the litigation does not support their allegation that the United States' complaint was filed in retaliation for S&P's 2011 decisions on the credit rating of the United States. S&P will formally retract that claim in the litigation.

"S&P played a central role in the crisis that devastated our economy by giving AAA ratings to mortgage-backed securities that turned out to be little better than junk," said Acting U.S. Attorney Yonekura. "Driven by a desire to increase profits and market share, S&P blessed innumerable securitizations that were used by aggressive lenders to offload the risks of billions of dollars in mortgage loans given to homeowners who had no ability to pay them off. This conduct fueled the meltdown that ultimately led to tens of thousands of foreclosures in my district alone. This historic settlement makes clear the consequences of putting corporate profits over honesty in the financial markets."

Today's settlement was announced in connection with the President's Financial Fraud Enforcement Task Force. The task force was established to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. With more than 20 federal agencies, 94 U.S. Attorneys' Offices and state and local partners, it is the broadest coalition of law enforcement, investigatory and regulatory agencies ever assembled to combat fraud. Since its formation, the task force has made great strides in facilitating increased investigation and prosecution of financial crimes, enhancing coordination and cooperation among federal, state and local authorities, addressing discrimination in the lending and financial markets and conducting outreach to the public, victims, financial institutions and other organizations. Over the past three fiscal years, the Justice Department has filed nearly 10,000 financial fraud cases against nearly 15,000 defendants including more than 2,900 mortgage fraud defendants. For more information on the task force, please visit www.StopFraud.gov.

15-126 Civil Division

Consumer Protection
StopFraud
Download sp_settlement_agreement.pdf (2.35 MB)
Download sp_statement_of_facts.pdf (22.99 KB)

Office of the Attorney General

Updated February 9, 2015