S&P agrees to sweetheart settlement on inflated ratings of subprime mortgages

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US credit rating agency Standard & Poor's agreed Tuesday to pay $1.375 billion to settle charges that it inflated ratings of high-risk mortgage-backed securities in order to increase its own profits in the run-up to the 2008 financial crisis.

"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 Stephanie Yonekura, US attorney for the Central District of California, at the press conference announcing the deal.

The settlement amounts to yet another slap on the wrist for one of the companies that made billions of dollars through fraudulent activities that contributed to the financial collapse. As with previous settlements with JPMorgan, Goldman Sachs and other major banks, S&P was not required to admit any wrongdoing. None of its executives will be criminally prosecuted for numerous demonstrable cases of systematic fraud spanning years, which caused incalculable harm to millions of people.

Acting Associate Attorney General Stuart Delery added that the company "admitted facts demonstrating that it misrepresented itself to investors and the public, allowing the pursuit of profits to bias its ratings."

The fine, despite being the largest ever issued to a credit rating agency, represents a mere fraction of the billions of dollars the company made through fraudulent activities between 2004 and 2007.

The company's stock shot up by four percent on the news, and S&P hailed the settlement, which frees it from billions of dollars in prospective lawsuits. "After careful consideration, the company determined that entering into the settlement agreement is in the best interests of the company and its shareholders and is pleased to resolve these matters," it said in a statement.

The settlement resolves the Justice Department's 2013 lawsuit against the company, as well as lawsuits by 19 states and the District of Columbia. Also on Monday, S&P announced a separate settlement with Calpers, the California public employees' pension fund, for $125 million, also for giving inappropriately high ratings to mortgage-backed securities.

S&P, together with other credit rating agencies, made enormous profits in the years preceding the financial crisis by obtaining contracts from Wall Street banks to rate mortgage-backed securities, which were assembled by the banks from home loans and sold to investors and financial institutions around the world.

A report from the Senate Permanent Subcommittee on Investigations in 2011 detailed the actions of S&P and other credit rating agencies.

"Between 2004 and 2007, Moody's and S&P issued credit ratings for tens of thousands of US residential mortgage backed securities (RMBS) and collateralized debt obligations (CDO)," noted the report. "Taking in increasing revenue from Wall Street firms, Moody's and S&P issued AAA and other investment grade credit ratings for the vast majority of those RMBS and CDO securities, deeming them safe investments even though many relied on high risk home loans."

The subcommittee report noted that the major cause of the inaccurate ratings handed out by the credit rating agencies was "the inherent conflict of interest arising from the system used to pay for credit ratings. Credit rating agencies were paid by the Wall Street firms that sought their ratings and profited from the financial products being rated." As a result, "The rating agencies weakened their standards as each competed to provide the most favorable rating to win business and greater market share."

The report also found that the credit rating agencies clearly knew that they were issuing inflated ratings to toxic assets, but continued to do so in order to increase their profits. The report noted, “Credit rating agencies were aware of problems in the mortgage market, including an unsustainable rise in housing prices, the high risk nature of the loans being issued, lax lending standards, and rampant mortgage fraud. Instead of using this information to temper their ratings, the firms continued to issue a high volume of investment grade ratings for mortgage backed securities.”

In announcing the deal, Attorney General Eric Holder declared that the settlement “not only makes clear that this kind of conduct will never be tolerated by the Department of Justice—it also underscores our strong and ongoing commitment to pursue any company or entity that violated the law and contributed to the financial crisis of 2008.”

These claims are entirely refuted by the facts. Not a single financial executive has been criminally charged for the financial fraud that helped trigger the 2008 crash. Rather, the banks and other financial companies at the center of the subprime mortgage meltdown are now once again making huge profits.

This state of affairs is all the direct product and desired aim of the Obama administration, which has handed trillions of dollars to the banks, shielded the companies and their executives from prosecution, organized token financial settlements and, in general, ensured that the same institutions that created the crisis now have more wealth and power than ever before.