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Credit Rating Agency Analysts Covering AIG, Lehman Brothers Never Disciplined

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Analysts at the three biggest credit rating agencies who gave positive, investment-grade ratings to AIG and Lehman Brothers up until their collapse have not been fired or disciplined, the heads of the agencies admitted at a Congressional hearing today.

Moody's, Standard & Poor's, and Fitch Ratings all maintained at least A ratings on AIG and Lehman Brothers up until mid-September of last year. Lehman Brothers declared bankruptcy Sept. 15; the federal government provided AIG with its first of four multibillion-dollar bailouts the next day.

Under questioning by Rep. Jackie Speier (D-Calif.), Raymond W. McDaniel, Jr. of Moody's, Deven Sharma of S&P, and Stephen Joynt of Fitch said the analysts in charge of ratings for the now-disgraced firms are still employed.

McDaniel defended Moody's ratings of Lehman Brothers by pointing to the government-engineered rescue of Bear Stearns in March of 2008, arguing that it played an important role in Moody's analysts maintaining an A rating on the now-bankrupt firm. Joynt said his analysts have since done "a lot of thoughtful soul-searching."

The big three rating agencies have come under fire since the 2007 collapse in the subprime home mortgage market for issuing rosy ratings on a plethora of securities that are now considered to be junk. The Obama administration and Congress are exploring various reform proposals.

At the hearing today, the exchange between Speier and the agency chiefs was particularly contentious.

"You had rated AIG and Lehman Brothers as AAA, AA minutes before they were collapsing. After they did fail, did you take any action against those analysts who had rated them?" Speier asked. "Did you fire them? Did you suspend them? Did you take any actions against those who had put that kind of a remarkable grade on products that were junk?"

McDaniel answered first. "No, we did not fire any of the analysts involved in either AIG or Lehman," he replied. "An important part of our analysis was based on a review of governmental support that had been applied to Bear Stearns earlier in the year.

"Frankly, an important part of our analysis was that a line had been drawn under the number five firm in the market [Bear], and that likely number four would be supported as well. Additionally..."

Speier then interrupted him.

"But that's not analysis," the first-term Congresswoman shot back. "That's an opinion. I can have that kind of an opinion, and I'm not an analyst. How could you possibly make that kind of a decision based on an opinion when you have millions of people relying on that?"

"Our opinion applies to whether we believe an instrument will pay or will not pay," McDaniel responded.

"That was a political determination that you made, Mr. McDaniel," Speier retorted.

S&P's Sharma said his analysts also were not fired. Joynt of Fitch said the same. He said that Fitch analysts in charge of Lehman Brothers and AIG were "disappointed" and "surprised."

In an interview with the Huffington Post after the exchange, Speier said she was "flabbergasted" by the responses.

"It just makes the case over and over again of the lack of accountability in the financial services industry," she said. "It's heads they win, tails the public loses."

The analysts "should have been disciplined, and they should have gone back and looked at their modeling, which was flawed to begin with. We don't need your political opinions [off which] to base a rating of a security," she added.

"For all the talk of all this being such a deliberative, scientific process...to have this decision was remarkable to me."