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Attorney General Racine Announces $863.8 Million Multistate Settlement with Moody's over Role in 2008 Financial Crisis

D.C. to Receive $6.45 Million as Result of Investigation by State Attorneys General and Feds

WASHINGTON, D. C. – Attorney General Karl A. Racine announced today that he, 21 other state attorneys general, and the United States Department of Justice have reached an $863.8 million settlement with Moody's Corporation, Moody's Analytics, Inc. and Moody's Investors Service, Inc. (collectively "Moody's") after an investigation into the Wall Street ratings agency. The District of Columbia is scheduled to receive $6.45 million from the settlement.

The landmark agreement is the culmination of an investigation into the Wall Street credit rating agency's conduct and its representations of independence and objectivity regarding structured finance securities in the lead-up to the 2008 financial crisis. The crisis caused markets to crash and sent much of the world into the worst recession since the Great Depression.

"Structured finance securities backed by subprime mortgages were at the center of the financial crisis, and ratings agencies like Moody's played a role in representing to investors that these financial instruments were worthy of investment," Attorney General Racine said. **"This settlement should send a strong message to Wall Street financial companies that they have to be up-front and truthful with investors."**

Despite repeated statements emphasizing its independence and objectivity, the Attorneys General and Department of Justice claim Moody's allowed its analysis to be influenced by its desire to earn lucrative fees from its investment bank clients, and assigned inflated credit ratings to toxic assets packaged and sold by Wall Street investment banks. This alleged misconduct began as early as 2001, but was particularly acute between 2004 and 2007.

Manipulation Meant Full Nature of Risk Not Disclosed to Investors
In particular, although Moody's promised consumers that its ratings were objective, Attorney General Racine and his colleagues found evidence that Moody's manipulated the system so that it gave its highest ratings -- a Aaa rating -- to riskier mortgage-backed securities. The investigation also found evidence that Moody's gave in to pressure from big banks and repeat customers that paid Moody's millions of dollars to rate these securities. The banks needed Aaa ratings in order to sell these securities to institutional investors, such as pension plans and retirement plans.

In addition to the monetary relief that Moody's has agreed to pay the District, the states, and the Department of Justice, Moody's also agreed to compliance terms that require it, among other things, to:

- Create and adhere to a code of professional conduct designed to protect the quality and integrity of its rating process;
- Conduct annual independent reviews of the methodologies it uses to rate securities;
- Conduct trainings for ratings analysts and require all ratings analysts to meet compliance standards before they are able to rate securities; and
- Provide an annual certification from its CEO to the District that it has adhered to the compliance terms outlined in the settlement.

Together with a similar settlement against Standard & Poor's in 2015, the Office of the Attorney General (OAG) has recovered more than $27.9 million from Wall Street credit rating agencies for their deceptive conduct related to the 2008 crisis. **"My profound thanks to the District's Department of Insurance, Securities and Banking and its Commissioner, Stephen C. Taylor, as well as our federal and state partners for their cooperation, coordination, and assistance in conducting this investigation,"** Attorney General Racine said.

Additional information regarding the settlement, including a complete list of the compliance terms and statement of facts agreed to by Moody's, can be found on our website here.