Press Releases

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MADIGAN, DOJ & STATES ANNOUNCE $1.375 BILLION SETTLEMENT WITH STANDARD & POOR'S

Lawsuits by Madigan, DOJ & States Prompt S&P Settlement for Misleading Investors in Lead Up to Economic Collapse

Chicago — Attorney General Lisa Madigan today announced a $1.375 billion settlement with Standard & Poor's to resolve allegations that the credit ratings agency compromised its independence and objectivity in assigning its highest ratings to risky mortgage-backed securities in the lead up to the 2008 economic collapse.

Illinois will receive $52.5 million under the joint state-federal settlement forged by the U.S. Department of Justice (DOJ), Madigan and 19 other attorneys general and S&P, a subsidiary of McGraw-Hill Companies, that is one of the nation's largest credit ratings agencies responsible for independently rating risk on behalf of clients and investors.

In 2012, Madigan was one of the first attorneys general in the country to file a lawsuit against S&P for its misconduct that contributed to the 2008 collapse. Madigan's lawsuit alleged S&P compromised its independence as a ratings agency by doling out high ratings to unworthy, risky investments to increase its profits, while its misrepresentations spurred investors, including Illinois' pension funds, to purchase securities that were far riskier than their ratings indicated.

"Standard & Poor's deliberately exploited its trusted reputation as an independent analyst to maximize profits and gain market share, and in the process, S&P became a key enabler of the economic meltdown," Attorney General Madigan said. "Were it not for S&P abandoning its core principles, these securities, made up of unsustainable mortgages destined for default, could never and would never have been purchased by many investors."

According to the settlement, S&P consistently made misrepresentations about the processes it used to assign credit ratings to mortgage-backed securities. While publicly promising independent, objective analyses, the company privately relaxed its ratings criteria and manipulated subprime mortgage data to ensure its clients' mortgage-backed securities would achieve higher ratings than the actual quality of the assets supported. These tactics were part of an overarching corporate strategy intended to retain clients and increase market share, according to the settlement agreement.

Mortgage-backed securities are financial products made up of a pool of mortgages that are bundled together and sold as a security. The assets are backed by residential mortgages, including subprime mortgages. The performance of these investment products have significant, real-world implications for Illinois institutional investors, such as pension funds and 401(k) managers that make decisions about whether, and which, of these securities are appropriate investments. It was the misrepresentation of the true risk of these mortgage securities that helped the housing market skyrocket and ultimately led to its collapse in 2008.

Under today's settlement, S&P will pay a $1.375 billion penalty, which exceeds the company's profits earned for rating mortgage-backed securities from 2002-2007. The majority of the relief awarded to Illinois will be distributed to the state's pension systems. Further, S&P has agreed to a statement of facts acknowledging conduct related to its analysis of structured finance securities. S&P also agreed to comply with all applicable state laws and will cooperate with requests for information from states that may express concern over a possible violation of state law. The states have also retained authority to enforce their laws – the same laws used to bring these cases – if S&P engages in similar conduct in the future.

Today's settlement is the latest in a long line of enforcement actions Attorney General Madigan has taken against banks, lenders and other contributors of the financial crisis. As a result of all of Madigan's enforcement actions, she has recovered a total of approximately $2.85 billion for Illinois homeowners, communities, county recorders and pension funds.

Joining Madigan and DOJ in today's settlement were attorneys general from: Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Idaho, Indiana, Iowa, Maine, Mississippi, Missouri, New Jersey, North Carolina, Pennsylvania, South Carolina, Tennessee, Washington and the District of Columbia.

Assistant Chief Deputy Attorney General Doug Rees, Consumer Protection Division Chief Deborah Hagan, Consumer Protection Chicago Bureau Chief Susan Ellis, Senior Assistant Attorney General Tom James, Supervising Attorney and Assistant Attorney General Vaishali Rao, and Assistant Attorney General Vijay Raghavan, Andrea Law and Agnes Ptasznik handled the case for Madigan's office.

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