Inflated Investment Grades
Greedy Ratings Agencies Self Deal

CalPers, the nation's largest public pension fund filed suit in July of 2009 against the three top ratings agencies – Moody's Investors Servce, Standard & Poors's and Fitch - contending that the AAA ratings given by the agencies "proved to be wildly inaccurate and unreasonably high". *Note: In March of 2016, they settled for $130 million – much too low in this author's opinion.*

What if all over the world, every school was told they could hire teachers trained by only three institutions? What if all teachers were paid by the students they graded? The grades would be so clearly biased that Grade Point Averages would lose all meaning. Then the colleges and universities would slowly discover that each incoming class was better connected and less educated than the last one. And then let's say the companies hiring these college graduates unknowingly grossly overpay sub-par students and have no way of getting that investment back. As much as everybody would like to pass on these losers, they have infiltrated the global business environment, and the whole thing melts down.

The mortgage market could take the hit from defaults and foreclosures. The total mortgage market in the United States is roughly $11 trillion. Of this, banks and thrifts service $6 trillion – the rest are owned by Insurance Companies, Commercial Banks, Fannie Mae and Freddie Mac. Of that portfolio, only 2.5% is in the process of foreclosure, and generally only half of that is actually written off. So, what could cause the global economy to crater when the actual potential loss is only $75 billion? What could possibly have amplified and spread this modest rise in losses to meltdown proportions? For years, investors in mortgage backed securities have been taking for granted the face value of the promised return, not bothering to perform the due diligence that would protect them from such false assumptions.

For some ironic perspective on how much money $75 billion really is: according to the Financial Times of August 10, 2009, "US banks stand to collect a record $38.5 billion in fees for customer overdrafts this year, with the bulk of the revenue coming from the most financially stretched consumers amid the deepest recession since the 1930s, according to research. The fees are nearly double those reported in 2000." That means every penny lost to defaults and foreclosures can be covered by two years of collecting bank fees, just fees – no interest income, or servicing income, or trading income, just fees, and not ALL fees, just overdraft fees.

So how can $75 billion morph into over a trillion dollars in bailout funds? When a tutor is passed off as an unbiased, third party evaluator, the student's worth to colleges is inflated. They then pass that along to the employers, who have a "D" student being paid "A" wages. Subprime mortgages are "D" students, and they should get the jobs reserved for "D" students. But if their teacher/tutor puffed all their grades, and didn't admit the mistake until long after the wages had been paid, and spent by subprime student – now you see the results of a true Conflict of Interest. It is not a polite term for business people who are "too cozy" – it is a trap for the morally amenable, and the damage affects us all. The Big Five Accounting firms were brought down by this exact same hubris – offering unbiased paid opinions on accounting structures that they had helped design. It was not the appraisers, or

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the low down loans, or the subprime lending, not the borrowers, not the lenders, though the market correction would have been painful when real estate values decreased. The amplification of these losses lies squarely with the companies that made these investments look better than they were, for profit.

Useful Internet Links:

Overrated – the sub prime mortgage meltdown could finally end the credit ratings racket by Jesse Eisinger:
http://upstart.bizjournals.com/news-markets/national-news/portfolio/2007/08/13/Moody-Ratings-Fiasco.html?page=all

Calpers Sues over Ratings of Securities:
www.nytimes.com/2009/07/15/business/15calpers.html

www.nytimes.com/2009/06/18/business/18securitize.html

http://www.bloomberg.com/news/articles/2016-03-09/calpers-says-moody-s-to-pay-130-million-to-settle-ratings-case

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