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Bankers Brought Rating Agencies ‘To Their Knees’ On Tobacco Bonds.

Wall Street pressed S&P, Moody’s and Fitch to assign more favorable credit ratings to their deals and bragged that the raters complied. Now many of the bonds are headed for default.

When the economy nosedived in 2008, it didn’t take long to find the crucial trigger. Wall Street banks had peddled billions of dollars in toxic securities after packing them with subprime mortgages that were sure to default.

Behind the bankers’ actions, however, stood a less-visible part of the finance industry that also came under fire. The big credit-rating firms – S&P, Moody’s and Fitch – routinely blessed the securities as safe investments. Two U.S. investigations found that raters compromised their independence under pressure from banks and the lure of profits, becoming, as the government’s official inquiry panel put it, “essential cogs in the wheel of financial destruction.”

Now there is evidence the raters also may have succumbed to pressure from the bankers in another area: The sale of billions of dollars in bonds by states and municipalities looking to quickly cash in on the massive 1998 legal settlement with Big Tobacco.

Continue reading.

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