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The Dirty Business of Paying for Ratings.

An analysis by Municipal Market Analytics this week noted that the number of government issuers seeking two or three ratings on their bond offerings is slipping. Several factors are at play, wrote analysis Matt Fabian, but a big one appears to the fact that issuers pay for ratings and they don't enjoy paying for a lower rating. The result is that whichever ratings agency is trending higher, issuers tend to opt just for a rating from that agency. For example, Fabian said Moody's saw a small bump in its market share in 2011 following its rating recalibration in 2010 which resulted in a number of upgrades. But since then, S&P has had the advantage. "Moody's more cautious view of credit and S&P's criteria change that raised a significant number of local government ratings has resulted in S&P gaining market share as Moody's has waned," Fabian's report said.

Another factor is the still relatively young Kroll Ratings agency, which is offering its services at a cheaper price. According to Fabian, Miami International Airport recently chose to obtain a Kroll rating (which was higher) and drop its Moody's rating, which was lower and cost about 30-to-40 percent more. "As increasingly cost-conscious issuers consider issuing debt the immediate and future costs of obtaining and maintaining ratings," Fabian warned, "the benefit of multiple ratings or high cost opinions will reasonably come under scrutiny."

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