Bachus Statement During Credit Rating Agency Hearing

May 19, 2009

WASHINGTON - Congressman Spencer Bachus (AL), the top Financial Services Committee Republican, made the following remarks during today's Capital Markets Subcommittee hearing on credit rating agencies:

Good afternoon and thank you Mr. Chairman for convening today's hearing. This hearing is extremely important because there is an obvious need for increased transparency and accountability in the credit ratings process.

Surely everyone now recognizes that the credit rating agencies have failed and failed spectacularly and broadly. Inaccurate rating agency risk assessments are one of the fundamental factors in the global financial crisis and effective corrective action must address these shortcomings. I'm aware that the credit rating agencies sometimes argue that these are merely predictive opinions and, should not be unduly relied on. Legally I believe that is a correct statement but in the real world, as a practical matter it is not. People rely on them every day.

The SEC special examination report of the three major credit rating agencies uncovered significant weaknesses in their ratings practices for mortgage-backed securities and also called into question the impartiality of their ratings.

As the SEC report detailed, the rating agencies failed to accurately rate the credit-worthiness of many structured financial products. Investors and the government both over-relied on these inaccurate ratings, which undoubtedly contributed to the dramatic collapse of U.S. financial markets. In order to avoid future meltdowns, we must return to a time where the ratings agencies are not deemed a valid substitute for thorough investor due diligence. My own view is that while the SEC report did not address municipal securities, the rating agency practices were also significant factors in the problems plaguing municipal issuers.

The federal government must also share the blame for fostering over-reliance on ratings agencies. The Federal Reserve's recent designation of certain credit ratings agencies as "major Nationally Recognized Statistical Ratings Organizations" implies a government stamp of approval that does not exist.

As we move forward with regulatory reform proposals the Committee should consider removing from Federal laws, regulations and programs all references that require reliance on ratings. The SEC also should take action to remove similar references in its own rules as quickly as possible. At a minimum, the Committee should consider changing NRSROs from nationally "recognized" to nationally "registered" statistical rating organizations to further reduce the appearance of a government imprimatur.

It has become apparent that credit default swap spreads have become a more accurate reflection of credit risk than credit ratings and have become almost a surrogate for ratings. This is a reminder that market solutions are capable of supplying the information investors need to make informed decisions. Therefore, it is critical that the Committee does not restrict the use of CDS contracts in the marketplace as we consider broader regulatory reform.

To say what has occurred in the marketplace since 2006 has been volatile and frightening is an understatement. Correcting the inadequacies of the credit ratings process is absolutely essential to restoring investor confidence. There must be further changes to the current ratings system to respond to the very serious concerns expressed by investors, market participants and policymakers alike. I look forward to hearing the witnesses address some of these concerns.

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