Opening Remarks of
Chairman Phil Angelides
at the Financial Crisis Inquiry Commission Hearing on
the Credibility of Credit Ratings,
the Investment Decisions Made Based on Those Ratings, and the Financial Crisis
At The New School
New York City
June 2nd, 2010

Thank you, President Kerrey. On behalf of the Financial Crisis Inquiry Commission, I want to thank everyone at The New School for their hospitality. As always I want to thank Vice Chairman Thomas and I especially want to commend Commissioners Georgiou, Graham, and Wallison for taking the lead on this hearing.

Today's hearing on credit ratings is part of our larger investigation into the causes of the financial and economic crisis that continues to bring so much hardship to our nation. Credit rating agencies have played a pivotal role in our financial markets. Their "good housekeeping seal of approval" guided decisions by individual and institutional investors alike. Financial institutions looked to ratings to make determinations about their capital requirements. And these ratings enabled the issuance of trillions of dollars worth of subprime mortgage securities.

Today we're examining Moody's Corporation as a case study. We will have questions about why things went so very wrong. I should add that this hearing is just one aspect of our investigation. Our staff has already combed through 430,000 pages of documents and interviewed dozens of witnesses on Moody's alone.

To be blunt, the picture is not pretty. From 1998 to 2007 Moody's revenues from rating complex financial instruments like mortgage securities grew by a whopping 523 percent. From 2000 to its peak in 2007, the company's stock price climbed more than six fold. Moody's did very well. The investors who relied on Moody's ratings did not fare so well.

From 2000 through 2007, Moody's slapped its coveted Triple-A rating on 42,625 residential mortgage backed securities. Moody's was a Triple-A factory.

In 2006 alone, Moody's gave 9,029 mortgage backed securities a Triple-A rating. That means they put the Triple-A label on more than 30 mortgage securities each and every working day that year. To put that in perspective, Moody's currently bestows its Triple-A rating on just four American corporations. Even Berkshire Hathaway, with its more than $20 billion cash on hand, doesn't make that grade

We know what happened to all those Triple-A securities. In 2006, $869 billion worth of mortgage securities were Triple-A rated by Moody's. Eighty-three percent went on to be downgraded. Investors -from university endowments to teachers and police officers relying on pension funds -suffered heavy losses.

Now, many of the witnesses that we've heard from over the course of our investigation--whether its bankers or regulators or the Chairman of the Federal Reserve--have said that there was *no way* they could have foreseen the steep, nationwide decline in housing prices we've experienced. I suspect we'll hear more of that today. But of course there were warning signs--the attempts by many states to stem the tide of deceptive and predatory mortgage practices, the 2004 FBI warnings about mortgage fraud, and, most of all, the fact that housing prices had shot up an unprecedented 89 percent from 2000 to 2006--leading to the obvious possibility that what goes up might come down. Even within Moody's Corporation there were warnings, including a prescient 2006 report from Moody's Economy.com, about the dangers of an overheated housing market.

And it didn't take a 30-percent decline in housing prices for these ratings to come unhinged. Housing prices had only dropped about 4 percent from their peak when Moody's began its massive downgrades in July 2007.

Imagine if you had a laboratory that tested the safety of toasters. At first, a few toasters caught fire. There would be an outcry about the toaster inspectors. And yet instead of halting the assembly line you sped up production of these combustible toasters. After awhile, if you found that 90 percent of the toasters that you rated as safe had caught fire you'd think that something was fundamentally wrong.

Why did Moody's get it so wrong? Was it because of woefully flawed ratings models? Was it because they were paid by the bankers whose securities they rated? Did a push for profits and market share skew their risk assessment? Was it a wholesale failure of corporate governance and management?

Today, we'll be asking questions of the front line personnel at Moody's and its CEO Raymond McDaniel. We'll also have Moody's largest investor, Warren Buffett, here to answer our questions. We hope to learn about how and if credit ratings and the companies that bestowed them contributed to the financial crisis.

In closing, I would like to note that the commission has an excellent background report on Credit Rating Agencies on our website at FCIC.gov. With that let me turn over the microphone to Vice Chairman Thomas.