Credit Ratings Are Still Credit Ratings

Bloomberg – Matt Levine

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Here is a thing you know about credit ratings: Behind the ratings inflation is a long-acknowledged flaw Washington didn't fix: Entities that issue bonds—state and local governments, hotel and mall financiers, companies—also pay for their ratings. Issuers have incentive to hire the most lenient rating firm, because interest payments are lower on higher-rated bonds. You knew that, right? Everyone knows that; ever since 2008, when repackaged mortgage products with AAA ratings turned out to be toxic, it has been clear to anyone who has paid the slightest attention to financial markets that bond ratings are paid for by the issuers and that ratings firms have awkward incentives to over-rate bonds to win more business.

And so after the 2008 crisis there were various congressional and regulatory proposals to reduce the importance of credit ratings, though not much actually happened with a lot of those. But, you know, those politicians and regulators, they get distracted easily, they never fix the real problems, no skin in the game, etc.

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