

Justice Department Investigating Moody's

By Brigid McCurdy, JD Candidate 2017 | February 13, 2015

After reaching a [\\$1.38 billion settlement](#) with Standard & Poor's Ratings Services (S&P) for issuing favorable grades on mortgage deals leading to the 2008 economic crisis, the U.S. Department of Justice is now setting its sights on Moody's.

Moody's, the second-largest ratings firm behind S&P, remained untouched while the Justice Department argued its case against S&P. However, now that a settlement agreement has been reached in that case, prosecutors are more ["vigorously"](#) pursuing Moody's.

Earlier this week, the Wall Street Journal [reported](#) that Justice Department officials have begun meeting with former Moody's executives to discuss ratings that the company issued on residential mortgage deals from 2004 until 2007. Moody's [allegedly miscalculated](#) the risk of subprime mortgages, resulting in triple-A ratings that made mortgage-backed securities look appealing to even conservative investors. In response to the allegations, the firm [maintains its innocence](#).

As the investigation is in its early stages, it is [unclear](#) whether a lawsuit will be filed. However, if a lawsuit does result, the charges against Moody's will likely be similar to the charges that S&P faced. In 2013, the Justice Department filed a [\\$5 billion](#) civil suit against S&P for ["fraudulently inflating ratings of risky mortgage securities"](#) in an attempt to remain competitive and maintain business with banks. The settlement with S&P, which took nearly two years to reach, marks the [largest settlement](#) ever with a ratings firm, as the government mainly targeted big banks in the wake of the 2008 financial crisis. Although S&P paid a significant sum as part of the settlement agreement, the rating firm [did not admit guilt](#), and no specific executives were implicated. If the S&P case is any indication, it could be years before there are any results from the Moody's investigation.

The current investigation is not the first time that the Justice Department has looked into alleged misconduct by Moody's. In 2001, an [investigation](#) by the Antitrust Division into the destruction of documents led Moody's to plead guilty to obstruction of justice, and pay a \$195,000 fine. That fine now seems inconsequential compared to the millions, possibly billions, that Moody's could be forced to pay if the Justice Department moves forward with its case.