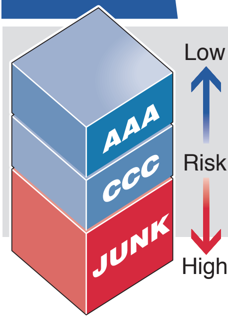
Wall Street ratings agencies

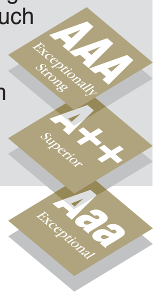
Credit ratings agencies face criticism for assigning their highest ratings to risky securities issued during the 2005 subprime mortgage boom

1 Mortgage originators: During housing boom, one-in-five U.S. mortgages is high-interest subprime loan to borrower with significant risk of default. **Originators sell loans to aggregators**

2 Aggregators: Wall Street investment banks and hedge funds package loans into mortgage-backed securities (MBS)



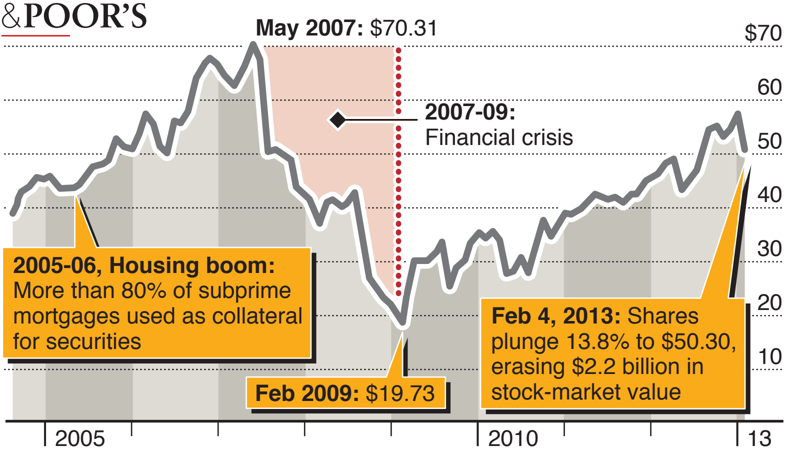
3 Ratings agencies: Work with aggregators to produce packages of securities such as collateralized debt obligations (CDOs). These mix MBS with other loans until they meet minimum standards for desired rating – usually AAA. **Aggregator pays fee to ratings agency**



4 Investors: Banks, pension funds and governments invest in AAA-rated products, unaware they contain high-risk mortgage bonds

STANDARD & POOR'S

Stock price for McGraw-Hill, parent company of S&P



Sources: The Panic of 2007 by Gary Gorton, Yahoo Finance