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August 10, 2011

The Honorable Spencer Bachus  
Chairman, House Committee on Financial Services  
The Honorable Scott Garrett  
Chairman, Subcommittee on Capital Markets  
and Government Sponsored Enterprises  
United States House of Representatives  
2128 Rayburn House Office Building  
Washington, DC 20515

Dear Chairmen Bachus and Garrett:

I am writing to request that when the House of Representatives reconvenes after its August district work period, the House Financial Services Committee (the Committee) hold a hearing, or a series of hearings, on Standard & Poor's (S&P's) decision to downgrade the sovereign credit rating of the United States of America to 'AA+' from 'AAA.'

As you know, the decision by S&P to downgrade the sovereign credit rating of the U.S. has had an impact on the U.S. economy and the world's capital markets. On Monday, August 8<sup>th</sup>, the first trading day following S&P's announcement, U.S. stocks experienced their worst declines since the 2008 financial crisis. And questions remain about what the impact of the downgrade will be on the still-fragile U.S. housing market, as well as interest rates on credit cards and car loans, and the borrowing costs for some state and local governments.

I believe it is appropriate to carefully scrutinize S&P's August 5<sup>th</sup> downgrade of the U.S. not only because of the implications of such a downgrade, but also because of S&P's recent failures in the lead-up to the financial crisis. S&P, as well as other credit rating agencies, consistently provided inaccurate ratings of asset-based securities, acting as "essential cogs in the wheel of financial destruction," as the Financial Crisis Inquiry Commission noted in their report earlier this year. Additionally, the record of the 2008 financial crisis demonstrates that S&P was not merely an independent evaluator of the credit risk of financial products, but actively used their power over the mortgage finance market to defeat state-level anti-predatory mortgage lending laws.

Therefore, I think it is appropriate for the Committee to hold a hearing, or hearings, on both the implications of S&P's actions, and how the historical performance of S&P interacts with

their August 5<sup>th</sup> downgrade. Additionally, I think it would be useful for the Committee to examine the extent to which S&P's downgrade was based upon an objective analysis of U.S. debt dynamics versus subjective political analysis; the impact of S&P using the incorrect Congressional Budget Office assumption in determining their credit rating of the U.S.; the firewalls and internal controls S&P, and their corporate parent, the McGraw-Hill Companies, have in place to insulate activities related to lobbying the federal government and the United States Congress from credit rating activities; and whether S&P selectively disclosed its downgrade of United States government debt to certain financial institutions before it made that information available to the public.<sup>1</sup>

According to news reports, the Senate Banking Committee has already "begun collecting information about Standard & Poor's decision to downgrade the U.S.," and may hold a hearing in September.<sup>2</sup> Given the historic nature of S&P's action, I believe that the Committee should likewise begin an examination of this issue, and hold hearing(s) upon Members returning to Washington, D.C.

Sincerely,



Maxine Waters

Ranking Member

Capital Markets and Government Sponsored Enterprises Subcommittee

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<sup>1</sup> As reported in various media outlets. For example, Gasparino, Charlie. "S&P Tipped Off Traders to Downgrade Sparking Selloff?" *FOXBusiness*. 8 August 2011. <http://www.foxbusiness.com/industries/2011/08/08/sp-tipped-off-traders-to-downgrade-sparking-selloff/#ixzz1UXmccQY4> and Orol, Ronald D. "Law From 2006 Gives SEC Scope to Probe S&P." *MarketWatch*. 9 August 2011. <http://www.marketwatch.com/story/law-from-2006-gives-sec-scope-to-probe-sp-2011-08-09>

<sup>2</sup> Hughes, Sioban. "U.S. Senate Banking Committee Gathers Information on Downgrade." *Dow Jones Newswires*. 8 August 2011. <http://online.wsj.com/article/BT-CO-20110808-721794.html>