

# STANDARD & POOR'S

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November 19, 2008

Ms. Mona Iskander  
Associate Producer  
NOW on PBS  
450 W33rd St. 7th Floor  
New York, NY 10001

Dear Ms. Iskander:

I am writing to respond to the questions you recently posed to our communications team.

The three areas you mentioned were:

- the technical suitability of computer models;
- sufficiency of data in credit estimates; and
- pressure to produce higher revenues.

These are all issues raised by Mr. Raiter in his October 22 testimony before the House Committee on Oversight and Government Reform, and since you have informed us that you have taped Mr. Raiter already, I will address these questions in the context of his testimony.

#### Technical Suitability of Models:

While S&P does make use of models as a component of our rating process, it is important to note that ultimately, our ratings opinions are formed by rating committees which take into consideration both quantitative and qualitative factors. Still, models provide important inputs to our overall analysis, and we review our models over time to assess and improve their quality. In his testimony in Washington, Mr. Raiter referred to our models, including our LEVELS model, which is used in the rating of residential mortgage-backed securities. Contrary to Mr. Raiter's assertions, since 2001, the LEVELS model has been updated 14 times, including eight updates since Mr. Raiter retired. Also contrary to Mr. Raiter's testimony, S&P has invested significantly in our models, and this work has never stopped for budgetary reasons.

#### Sufficiency of Data in Credit Estimates:

During the October 22 hearing, Mr. Raiter asserted that in 2001, he was asked to "rate" a transaction for which he felt he did not have enough information. In fact, Mr. Raiter was asked to evaluate the general credit quality of certain underlying assets to be held by a CDO ("Pinstripe") – assets which had already been rated by another credit rating agency. In order to rate the Pinstripe CDO containing these assets, S&P did not need to prepare its own separate, formal rating of the underlying assets, and did not ask Mr. Raiter to do so. Rather, one way S&P has historically evaluated assets in such a situation is to perform what is known as a credit estimate. A credit estimate is not a formal rating, but rather, as the name suggests, an estimate. It is a well known process in the markets and is expressly understood to be less formal than an RMBS rating, which would involve a loan-level analysis of all assets in a pool.

After a credit estimate was performed, S&P eventually rated the senior notes issued by the Pinstripe CDO, but not any of the junior notes. All of the notes issued by the CDO, including the top class rated by S&P, were paid off to investors in accordance with the terms of the notes in November 2004.

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Pressure to Produce Higher Revenues:

As the issuance of structured securities grew, our revenues from rating them also increased. However, our ratings and our criteria for rating structured finance securities have always resulted from analytical considerations, not revenue considerations. Our long term track record clearly demonstrates the consistency of our ratings process. Since 1978, the average five-year default rate for investment-grade structured securities is less than 1%; for speculative-grade securities it's just over 15%. The average one-year default rates since 1978 are near zero (0.04%) for investment grade securities and 2.33% for speculative grade securities. And even looking at the worst performing period – 2005 through the third quarter of 2007 -- of the U.S. structured finance securities we rated during that time, 1.7% have actually defaulted.

On a more macro level, S&P is part of a larger organization, The McGraw-Hill Companies, which has a diverse set of businesses and revenue streams that makes it less reliant on any one product or service. Furthermore, S&P itself has a diversified portfolio of financial services offerings that provides much more than credit ratings. In addition to Ratings Services, which provides independent global credit ratings, S&P also operates in the Investment Services area, including such globally recognized products as the S&P 500 index.

I hope that these answers are helpful to you as you produce your program. I thank you for the opportunity to bring some clarity to these issues.

Sincerely,



Elizabeth A. Ventura  
Senior Vice President  
Standard & Poor's