



Did Credit Rating Agencies Make Unbiased Assumptions on CDOs?

John M. Griffin

Dragon Yongjun Tang

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Article Information

Abstract

We compare key CDO assumptions from two departments within the same rating agency but with different financial incentives. Assumptions made by the ratings division are more favorable than those by the surveillance department. The differences are not explained by collateral switching during the ramp-up period, a long time gap between reports, nor the collapse of the CDO market in 2007. Additionally, CDOs rated with more favorable assumptions by the ratings group were more likely to be subsequently downgraded. As the useful signals from the surveillance group were seemingly ignored, these findings suggest rating agencies bias towards high ratings.

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Additional Materials

Online Appendix (1.28 MB)

JEL Classification

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G24 Investment Banking; Venture Capital; Brokerage; Ratings and Ratings Agencies

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