

**FOR IMMEDIATE RELEASE:**

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## BUREAU OF SECURITIES ISSUES ADVISORY TO RAISE AWARENESS OF BOND RATINGS

(Concord, NH, January 6, 2020) The New Hampshire Bureau of Securities Regulation is advising the public that, when it comes to bond agency ratings, investors should exercise caution. Since these agencies are for-profit companies and not government agencies, they may have an incentive to inflate ratings. Many investors rely on these ratings in evaluating bond investments. However, it is critical to look beyond ratings when considering an investment in a specific bond or bond fund.

Ideally, rating agencies provide an evaluation of the risks related to debt securities, such as government and corporate bonds, certificates of deposit (CDs) and others. These risks are based on the likelihood of default on the debt. The highest-rated bonds are given a "AAA" (or similar) rating and the lowest-rated a "C" or "D". These ratings can have serious implications for issuers, investors and the capital markets. For example, if a rating company "downgrades" a bond's rating due to negative news or a market-moving event, the bond tends to lose value.

After the 2008 financial crisis, bond rating agencies were accused of intensifying the crisis and, in some cases, defrauding investors by issuing strong ratings for failing institutions and approving highly risky mortgage-related securities. As a result of faulty or deceptive models, the ratings of some high-risk bonds were inflated to appear more creditworthy and appealing to investors. There are concerns that these problems continue to linger.

Investors should keep in mind that rating agencies are paid by the companies issuing the debt. As a result, they have an incentive to give favorable ratings to these companies. Investors need to be aware of the conflicts this may create. In addition, bond rating companies often make the mistake of believing recent financial history is likely to repeat. They may only look at a company's last two years or fail to account for greater systemic risks associated with certain products. Therefore, investors should exercise caution and not take a rating agency grade at face value without doing their own homework.

If you are considering purchasing bonds, before making any decisions, ask questions, do your homework and contact the New Hampshire Bureau of Securities Regulation for more information. Contact the Bureau at (603) 271-1463 or by email at [securities@sos.nh.gov](mailto:securities@sos.nh.gov).

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