State of Connecticut

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Dr. Ben S. Bernanke
Chairman
Federal Reserve Board of Governors
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Bernanke:

I write to express my deep concern about the ratings eligibility criteria for the Federal Reserve's anticipated $1 trillion lending initiative, the Term Asset-Backed Securities Loan Facility (TALF). Specifically, current Federal Reserve policy mandates that TALF-eligible securities must be rated by two or more "major nationally recognized statistical rating organizations (NRSROs)." Under the Federal Reserve's definition, the only NRSROs – more commonly referred to as credit rating agencies – considered "major" are Standard & Poor's, Moody's Investors Service, and Fitch Ratings.

As I am sure you are aware, one of Congress' primary goals in enacting the Credit Rating Agency Reform Act of 2006 was to *increase* competition in the credit ratings market. To accommodate that purpose, Congress provided authority to the Securities and Exchange Commission (SEC) to oversee a regulatory process to register NRSROs and oversee aspects of their business. Currently there are upwards of nine NRSROs deemed eligible by the SEC to provide credit ratings for the types of securities contemplated by the TALF.

Despite the number of NRSROs the SEC considers fully capable of rating asset-backed securities of the type eligible for the TALF, the Federal Reserve's policy of preferring just Standard & Poor's, Moody's Investors Service, and Fitch Ratings, has the effect of unfairly blocking the other NRSROs from the TALF program which, according to many experts, is likely to be the entire securitization market in the United States for the foreseeable future.

Further, limiting the number of acceptable credit ratings agencies under the TALF program solely to the three major credit rating agencies contradicts and undermines Congress' intent to enhance competition; solidifying the major credit rating agencies' market dominance to the detriment of the other qualified NRSROs. Even more inexplicably, it rewards the very incompetence by Standard & Poor's, Moody's Investors Service, and Fitch Ratings, that helped cause our current financial crisis. In effect, the policy handsomely rewards failure. Indeed, it enables those specific credit rating agencies to profit from their own self-enriching malfeasance.

On October 23, 2008, your predecessor, Dr. Alan Greenspan, testified before the House Committee on Oversight and Government Reform that "unrealistically positive rating designations by the credit agencies was, in my judgment, the core of the problem," referring to the current credit crisis. I am sure you are aware that Dr. Greenspan's assessment of the *major* credit rating agencies' poor performance is widely shared. Indeed, the explicit purpose of the Credit Rating Agency Reform Act is "to improve ratings quality for the protection of investors … by fostering accountability, transparency, and competition in the credit rating industry." Congress specifically stated that accomplishing these important goals was necessary because of the "failures by the large credit rating agencies to warn investors in a timely manner about the impending bankruptcies of Enron, Worldcom, and others." The major rating agencies' role in the current credit crisis underscores the urgency and significance of these goals, especially since, as the primary lender for the TALF, the Federal Reserve Bank of New York – and ultimately U.S. taxpayers in the event of default -- will be secured by the collateral rated by the major credit rating agencies.

I strongly urge the Federal Reserve to reassess and revamp its current policy and to adopt a policy that gives all properly registered NRSROs the same chance to compete for work rating securities for the Federal Reserve liquidity enhancement facilities, such as the TALF. The Federal Reserve should not be favoring large market participants, whose mistakes helped precipitate the current crisis, over smaller ones seeking to break into the market.

I look forward to your response.

Very truly yours,

RICHARD BLUMENTHAL

RB/pas

c: Federal Reserve Board of Governors
Mary L. Schapiro, Chairperson, U.S. Securities and Exchange Commission