Government guaranteed them through their Fannie Mae program. This “secured” MBS and acted as an automatic insurance policy against the bond.

The year 2000 saw the Dotcom bubble burst and the nation was rocked by the next year’s 9/11 bombings and the United States’ entrance into war. The nation’s economy was significantly lagging and normality seemed like a far-off notion. America took refuge in home ownership. The years 2002 to 2007 saw more home buying and refinancing than in any other 5-year period in U.S. history. Residential mortgages could not be bundled into MBS fast enough and Wall Street banks were making a killing. Unfortunately, only so many Americans can actually qualify for a mortgage. Therefore, the rules were changed in many ways in which my dissertation will thoroughly explain. Unqualified mortgagees were given what was known as “sub-prime” mortgages, which were bundled into much riskier MBS. Enter the CRA industry.

CRA had been rating MBS since they were given bond status at their inception in the late 1970s. MBS were given AAA ratings for most of their existence. However, these sub-prime mortgages were a higher risk, making the MBS that were made up of them a higher risk. Reason dictates that these MBS should be given lower ratings by the CRA – they were not. Why? Because the banks that issued the low-grade MBS paid the CRA for the AAA ratings. In many cases, parts of an original MBS were made up of such terrible mortgages they could not be included in the MBS or the rating would surely go down to BBB or lower. In these cases, those mortgages would be bundled with other orphan sub-primes and put into a derivative investment called a Collateralized Debt Obligation [CDO]. Since these were new bonds that worked off other bonds, which were originally given AAA ratings, these toxic derivatives were given AA and AAA ratings. R. Stafford Johnson’s Bond Evaluation, Selection and Management and Richard Wilson’s Corporate Senior Securities as well as my personal knowledge and experience