news

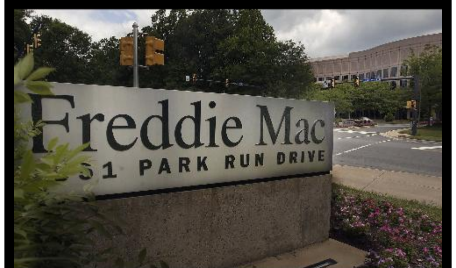
- Exclusive
- Worldwide
- Regions
- Markets
- Economy
- Politics
- Industries
- Opinion
- Invest
- Sports
- Muse
- Spend
- Audio/Video Reports
- Bloomberg Markets Magazine
- Special Report

RESOURCES

- Bloomberg TV

Freddie Mac Risks Larger Credit Losses, Moody's Says (Update3)

By Kabir Chibber



Enlarge/Details

Nov. 23 (Bloomberg) -- Freddie Mac, the second-largest U.S. mortgage-finance company, may report wider losses than it forecast as the slump in credit markets worsens, Moody's Investors Service said.

Freddie Mac, which reported this week a record loss of $2.02 billion for the third quarter earlier this week, may have underestimated when it projected that 0.11 percent of the debt it guarantees will go bad in the next two years, Moody's analysts Brian Harris and Craig Emrick said in a report.

``Continued deterioration in the mortgage market, resulting in further decline in these books, may lead to credit losses in excess of their 11 basis point loss forecast,'' New York-based Harris and Emrick wrote in the Nov. 21 report.

Freddie Mac, based in McLean, Virginia, said it expects credit losses to continue to increase into next year. The company and the larger Washington-based Fannie Mae guarantee 40 percent of the $11.5 trillion U.S. home-loan market. The

Related Media on Demand

- 11/21 Lockhart Says Fannie, Freddie Need Stronger Regula
- Rutledge of R&R Says Credit Woes Still at `Beginning'

More News

- Toys `R' Us, Retailers Lure Holiday Shoppers With Discounts as Sales Slow
- Stocks in U.S. Rise, Led by Retailers on Holiday Sales; Exporters Advance
- Greenspan Says He Has No `Regrets' Over Fed Actions as House Prices Slump

Bloomberg Radio

Bloomberg Podcasts

Bloomberg Press

government- chartered companies have lost $57 billion in market value because of writedowns caused by record U.S. mortgage foreclosures. Credit Suisse Group analysts said this week that Freddie Mac may lose as much as $5 billion on its subprime holdings next year.

Moody's cut the outlook on Freddie Mac's A- Bank Financial Strength, Aa2 subordinated debt and Aa3 preferred stock ratings, and said the outlook remains stable on Freddie Mac's Aaa senior debt rating. New York-based Moody's said changes in legislation or government support for Freddie Mac's housing mission would lead to a ratings downgrade, which it called ``highly unlikely.''

Drain on Banks

Freddie Mac shares, down 42 percent since Nov. 13 as concern about potential losses escalated, fell for a seventh day, dropping 32 cents to $25.68 at 10:22 a.m. in New York Stock Exchange composite trading. Fannie Mae rose $1.96 to $31.19.

Bank of America Corp., the second-largest U.S. bank, said this week that losses at Freddie Mac and Fannie Mae would make it harder for banks to sell their mortgage bonds, hurting the U.S. economy by limiting banks' ability to make new loans.

The world's biggest banks, brokers and insurers have announced write downs of more than $60 billion in subprime- related losses.

Freddie Mac reported $1.2 billion in provisions for credit losses and reduced the value of its assets by $3.6 billion. The company's $713.1 billion portfolio as of September included $105 billion of securities backed by subprime mortgages, the company said this week.

Freddie Mac will take an ``other than temporary'' writedown of between $1 billion and $5 billion on subprime mortgages in 2008, according to a Nov. 21 report from

New York-based Credit Suisse analysts Moshe Orenbuch and Kerry Hueston, based on losses of up to 10 percent on the assets.

Fannie Mae on Nov. 9 reported a third-quarter net loss of $1.39 billion, caused by a $2.24 billion decline in the value of derivatives and $1.2 billion in credit losses among the $2.7 trillion of mortgage assets Fannie Mae owns or guarantees.

Congress created Fannie Mae and Freddie Mac to increase mortgage financing by buying loans from lenders. They profit by holding mortgages and mortgage bonds as investments and by charging a fee to guarantee and package loans as securities. They record losses when defaults rise.

To contact the reporter on this story: Kabir Chibber in London at **kchibber@bloomberg.net** .

Last Updated: November 23, 2007 10:25 EST

News tools Email this article Printer friendly format

