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Credit crisis shows signs of deepening

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Jonathan Stempel
Reuters

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NEW YORK – The U.S. credit crisis deepened Friday as Wachovia Corp reported a potential $1.7 billion loss (dollar figures U.S.) on mortgage-related debt, while credit card company Capital One Financial Corp said more customers are missing payments.

The news helped cause losses in broader market indexes, on expectations that mounting write-downs and bad loans may plunge the economy into recession. Shares of financial companies rebounded, but after weeks of heavy selling on worries about the impact from the credit downturn on their bottom lines.

Bank of America Corp and JPMorgan Chase & Co., the second- and third-largest U.S. banks, said the poor market conditions could hurt fourth-quarter results.

"This is now worse than Long-Term Capital (Management)," said Jack Malvey, chief global fixed-income strategist at Lehman Brothers Inc, referring to the hedge fund whose 1998 collapse threatened to unhinge global financial markets. "This is a painful lesson in financial engineering."

Wachovia, the fourth-largest U.S. bank, said the value of its so-called asset-backed collateralized debt obligations (CDOs) linked to subprime mortgages fell about $1.1 billion in October, to $676 million from $1.8 billion. The pre-tax loss is in addition to a $347 million third-quarter loss, it said.

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Charlotte, North Carolina-based Wachovia also expects to boost loan losses by $500 million to $600 million this quarter, largely because of "dramatic declines" in housing values.

Wachovia joined Citigroup Inc, Merrill Lynch & Co , Morgan Stanley and other financial companies to report tens of billions of dollars of subprime losses.

"WE ARE NOT IMMUNE"

Wachovia Chief Risk Officer Don Truslow said at a banking conference in Boston that credit problems in housing were concentrated in "several pockets" in California and Florida.

"The housing market certainly has been deteriorating very, very quickly in certain parts of the country," he said. "We are not immune."

Wachovia paid $24.2 billion in October 2006 for Golden West Financial Corp, a California adjustable-rate mortgage lender.

"It now becomes even more obvious that Wachovia purchased the thrift at the wrong time of the cycle," Deutsche Bank Securities analyst Mike Mayo wrote.

Gary Townsend, a Friedman, Billings, Ramsey & Co analyst, downgraded Wachovia to "underperform" from "market perform."

"Subprime is a huge issue, and it's going to get worse," said Ted Parrish, who helps invest $1.3 billion at Henssler Asset Management in Kennesaw, Georgia. "My uncertainty is over how long it will take lenders to recover from write-offs."

Credit analysts at Citigroup estimated $64 billion of industry losses from asset-backed CDOs. Britain's Barclays Plc

on Friday rejected rumours it might lose $10 billion.

Separately, Wachovia said it would reduce reported third-quarter profit by $72 million, or 4 cents per share, to reflect its share of Visa Inc's $2.1 billion antitrust settlement with American Express Co Wednesday.

CAPITAL ONE CARD LOSSES

Capital One, the largest independent MasterCard and Visa credit card issuer, said its net charge-off rate rose to 3.28 percent in October from the third quarter's 2.86 percent.

The charge-off rate in U.S. cards rose to 5.11 percent from 4.13 percent in the same periods, while card loans at least 30 days past due rose to 4.75 percent from 4.46 percent. Capital One had Tuesday raised its forecast for 2008 credit losses.

"While management previously indicated that the U.S. card loss rate would trend north of 5 percent in the fourth quarter, we were surprised to see how fast this jumped," Credit Suisse analyst Moshe Orenbuch wrote.

Standard & Poor's revised its rating outlook for McLean, Virginia-based Capital One to "stable" from "positive."

Bank of America, also based in Charlotte, said market dislocations, including those affecting CDOs, will "adversely impact" fourth-quarter results.

New York-based JPMorgan, meanwhile, said it may need further write-downs this quarter, given its exposure to about $50 billion of leveraged loans, subprime mortgages and CDOs.

Lehman's Malvey said: "We will find out over the next three to six quarters if we are coming close to recession or may cross over the recession line."

On Friday, Wachovia shares rose 35 cents to $40.65; Capital One rose $1.36 to $54.26; and Bank of America rose 48 cents to $43.98. JPMorgan fell 30 cents to $42.31. The respective stocks are down 29 percent, 29 percent, 18 percent and 12 percent this year.