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Fannie Mae Faces Record Losses

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By Anuradha Kher, Online News Editor

Washington, D.C.----Fannie Mae has reported a record loss of \$29 billion in the third quarter as the housing slowdown deepened and the agency wrote down a tax-related asset that had buoyed capital.

This is the fifth consecutive loss for the company, which has been operating under a government conservatorship since September of this year.

According to a Reuters report, Fannie Mae warned in October that it would write down substantially all of its deferred tax assets, which had become a controversial addition to capital as losses mounted. Deferred tax assets can be used to offset future taxes but only if the company can show it will return to profitability.

Credit expenses soared to \$9.2 billion in the quarter because of deteriorating mortgage credit conditions and declining home prices, the company said in a statement.

Fannie Mae's loss equaled \$13 a share, compared with a loss of \$1.4 billion, or \$1.56 a share a year earlier. The company said it expected a significant loss for the fourth quarter if downward trends in housing and financial markets continue.

Stockholder equity fell to \$9.3 billion in the third quarter, from \$44 billion at the end of 2007. The figure may be negative by Dec. 31, the company said.

Fannie Mae and Freddie Mac own or guarantee nearly half of all residential mortgages in the United States.


Following this news, Moody's Investors Service released a statement saying that it affirmed all ratings of Fannie Mae, including its Aaa senior long-term debt, Prime-1 short-term debt, Aa2 subordinated debt, Ca preferred stock and E+ Bank Financial Strength Ratings (BFSR). All ratings have a stable outlook, according to the company.

The deferred tax valuation allowance was largely a result of uncertainty regarding the company's future profitability. Future profitability is likely to be reduced, at least in the short term, as the company has been required to primarily focus on its public policy mission of supporting the U.S. housing market rather than maximizing shareholder value.

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