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End in Sight to Subprime Mortgage Writedowns-S&P

By Dena Aubin

NEW YORK (Reuters) - Standard & Poor's said on Thursday write-downs for large financial institutions on subprime debt are likely past the halfway mark, but could still hit $285 billion. S&P's estimate of write-downs was up from the $265 billion figure it published in January, but the credit ratings agency said an end to subprime write-downs was in sight.

"The positive news is that, in our opinion, the global financial sector appears to have already disclosed the majority of valuation write-downs of subprime asset-backed securities," S&P credit analyst Scott Bugie said in a report.

More write-downs could be in store outside the subprime sector, however, S&P cautioned. S&P's statement gave a boost to financial stocks and helped Wall Street indexes pare losses.

The Dow Jones industrial average .DJI gained 0.3 percent after earlier falling about 2 percent. The S&P 500 Index .SPX was up 0.88 percent, reversing earlier losses of more than 2 percent.

LEHMAN, MERRILL SHARES RISE

The Amex Securities Broker/Dealer index .XBD, which includes investment banks and brokerages, shed nearly 5 percent before the report. It ended up 1.0 percent. "We believe that the largest players, such as Merrill Lynch & Co Inc (MER.N: Quote, Profile, Research) and Citigroup Inc (C.N: Quote, Profile, Research), have rigorously and conservatively valued their exposures to subprime asset backed securities such that most of the damage should be behind them," S&P said.

S&P also said some subprime mortgage write-downs are larger than any reasonable estimate of actual losses. Shares of Lehman Brothers Holdings Inc (LEH.N: Quote, Profile, Research), down nearly 5 percent before the S&P report, reversed those losses and ended up 2.3 percent $45.99. Shares of Merrill Lynch, which had been down 2.5 percent, ended up 2.98 percent.

Some market players may have misread S&P's report, however, said Daniel Alpert, managing director at Westwood Capital, a New York investment bank specializing in securitization. The report deals only with expected losses on subprime debt, but that is only about 8 percent of the $11 trillion of total residential mortgage debt outstanding, Alpert said in an e-mail.

"The current crisis, of course, is no longer a subprime crisis," he said, noting that a growing percentage of home foreclosures are coming from outside the subprime sector.

$150 BLN WRITE-DOWNS TO DATE

Mike Kagawa, portfolio manager at Payden & Rygel in Los Angeles, said he was surprised S&P said the end may be nearing for write-downs on subprime mortgages. "They must be seeing something I'm not," he said. "I just don't see it."

Financial institutions globally have already taken about $150 billion of subprime-related write-downs, S&P estimated. The write-downs have taken a major toll on banks' balance sheets, making them reluctant to extend credit and triggering a chain reaction of margin calls and forced selling across an array of markets.

In the latest fallout, a fund affiliated with buyout firm Carlyle Group said late on Wednesday its lenders were likely to seize its remaining assets after it defaulted on about $16.6 billion of debt.

S&P noted that the positive impact of subprime disclosures and write-downs is offset by worsening U.S. housing and credit markets. For details, see [nN13300839].

"A major re-pricing of credit risk is taking place across the debt markets, with credit spreads having further widened in most segments since the beginning of 2008," S&P said. If spreads remain wide, financial institutions could suffer more write-downs beyond the subprime sector, such as in leveraged loans, S&P said.