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Freddie posts 4th straight quarterly loss and slashes dividend

By Al Yoon

NEW YORK (Reuters) - Freddie Mac on Wednesday posted its fourth straight quarterly loss as it braced for a prolonged housing crisis by setting aside twice as much money for bad loans and plans to slash its dividend by at least 80 percent.

The worse-than-expected results came just three weeks after authorities orchestrated a sweeping effort to prop up the U.S. No. 2 provider of residential mortgage funding and its rival Fannie Mae.

Freddie Mac's chief financial officer Buddy Piszel reiterated that the company's has adequate capital, and said the company can wait for "choppy" market conditions to improve before raising capital, which could exceed $5.5 billion.

For the second quarter, McLean, Virginia-based Freddie posted a loss of $821 million, or $1.63 per share, compared with a profit of $729 million, or 96 cents per share, in the same quarter a year earlier.

That included the first loss from its holdings of subprime and other risky loans, which formed a significant part of its $2.8 billion in realized and anticipated losses stemming from the steepest U.S. housing downturn since the Great Depression.

The company more than doubled its provisions for loan losses to $2.5 billion since the first quarter, marking the fourth increase in as many quarters. All credit-related expenses surged to $2.8 billion from $1.4 billion in the previous period and $463 million a year earlier.

"Credit-related expenses were far higher than what guidance had been," said Rajiv Setia, a strategist at Barclays Capital in New York. Barclays was expecting about $2 billion, he said, adding "that was on the high side" of analyst estimates.

FOURTH STRAIGHT LOSS

The second-quarter loss follows a $151 million loss in the first quarter and brings its cumulative loss over the past four quarters to more than $4.6 billion.

Piszel told Reuters it was still reasonable to expect a housing market recovery by early 2009, but "we have to prepare for a stress condition that looks worse than that."

Richard Syron, Freddie Mac's chief executive officer, said the company revised its expectations for home price declines that have wreaked havoc on foreclosures to 18 percent to 20 percent from peak-to-trough, from 15 percent in a previous assumption. The numbers are based on Freddie Mac's own model.

"Today's challenging economic environment suggests that the housing market is far from stabilizing," Syron said on a conference call with analysts and investors. "We now think that we are halfway through the overall peak-to-trough decline."

Freddie Mac shares plummeted by more than 16 percent to $6.70 in early afternoon trading in New York. The stock is some 90 percent below its 52-week high of $66.65 set last August.

Freddie Mac and Fannie Mae faced a storm of stock selling last month as investors speculated the companies would fall short of the capital needed to offset losses sustained from delinquent mortgages and help stabilize the housing market.

The turmoil led U.S. Treasury Secretary Henry Paulson, in concert with Federal Reserve Chairman Ben Bernanke, to arrange emergency measures that bolstered federal backing for the government-sponsored enterprises.

"Either investors are going to be massively diluted given the amount of equity they are going to need or they are going to be nationalized," said Dan Alpert, managing director of Westwood Capital LLC in New York. "Without a larger equity capital base, they are going to be incapable of surviving. We don't think $5.5 billion even scratches the surface."

Freddie Mac in its first Securities and Exchange Commission quarterly filing said there is a "significant possibility" that it could fail to meet risk-based capital requirements as home prices fall and mortgage bonds are downgraded.

DIVIDEND SLASH

To help preserve capital, Freddie Mac said it would slash its quarterly dividend, pending board approval, by at least 80 percent to 5 cents a share or less from the current 25 cents a share. On an annualized basis, that will save Freddie Mac more than $500 million based on current shares outstanding.

It will also halt the rapid growth in its $792 billion portfolio as it becomes more conservative with capital, Piszel said. The company contended it can continue to support the mortgage market by replacing loans matured or refinanced.

Freddie Mac, along with Fannie Mae, owns or guarantees more than $5 trillion in mortgages, or nearly half of all U.S. home loans. Analysts also expect Fannie Mae to show a loss when it reports second-quarter results on Friday.

Freddie said revenue rose by more than 10 percent from the first quarter to $1.69 billion, including an increase of 92 percent in net interest income to $1.5 billion.

Total credit losses rose to $810 million in the period from $528 million in the first quarter.

"The reality is you don't know" what losses will be," said Malcolm Polley, chief investment officer at Stewart Capital Advisors in Indiana, Pennsylvania. "It's pretty ugly."

(Additional reporting by Lynn Adler in New York and Patrick Rucker in Washington; Editing by Theodore d'Afflisio)