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Woes at Loan Agencies and Oil-Price Spike Roil Markets

By [MICHAEL M. GRYNBAUM](#)

[Fannie Mae](#) and [Freddie Mac](#) shares fell again Friday — and the broader stock market followed suit — as concern mounted that the government will be forced to take over the beleaguered mortgage finance companies, which some investors fear are at risk of default.

Even after a week of unprecedented losses, the companies' declines early Friday were the sharpest yet: Freddie Mac shares were down more than 50 percent early in the day before paring their losses in the afternoon. Freddie Mac closed down 3.1 percent, at \$7.75. Fannie Mae stock fell as much as 49 percent before rallying and ended down more than 22 percent, at \$10.25.

Investors, meanwhile, snapped up debt issued by those companies, and the insurance premiums on those securities dropped sharply on the view that they would be protected by a government takeover.

The Bush administration sought to allay market fears. The president, after meeting with his team of economic advisers Friday morning, said he was briefed on the situation by Treasury Secretary [Henry M. Paulson Jr.](#)

“He assured me that he and [Ben Bernanke](#) will be working this issue very hard,” Mr. Bush told reporters after the meeting.

Hoping to calm the markets, Mr. Paulson issued a statement that suggested that no government takeover of Fannie and Freddie is imminent.

“Today our primary focus is supporting Fannie Mae and Freddie Mac in their current form as they carry out their important mission,” Mr. Paulson said. “We are maintaining a dialogue with regulators and with the companies.” But the remarks did not appear to placate investors at first, who accelerated the sell-off that began at the market's open. Investors were running scared across the board, sending the Dow Jones industrial average down more than 200 points during the day and the Standard & Poor's 500-stock index down 1.6 percent. But investors staged a rally in the afternoon and recovered some of their losses. The Dow, which fell below 11,000 at one point, finished down 128.48 points, or 1.1 percent, at 11,100.54. The S. & P. 500 closed down 13.90 points, or 1.1 percent, to 1,239.49. The Nasdaq composite index dropped 18.77 points, or 0.8 percent, to 2,239.08.

Adding to the pain was a \$5 surge in the price of oil, which reached another record in overnight trading, touching \$147 a barrel, on concern over recent tensions in the Middle East. Oil later pulled back and settled at \$145.08, up \$3.43.

Investment banks and other financial firms led the day's declines, with [Lehman Brothers](#), itself the subject of meltdown rumors over the last few weeks, losing 17 percent, to \$14.43, down \$2.87.

Lehman's stock has lost 37 percent of its value in the last week alone and is on track for its worst weekly streak since the investment house went public in 1994. The perceived risk that the bank will default on its loans also rose on Friday, as measured by the market for so-called credit default swaps.

Freddie Mac stock has lost 47 percent of its value in the last week alone. Fannie Mae shares have fallen 45 percent during that period. Both companies' shares are trading at their lowest levels in nearly two decades.

Though shares of Fannie and Freddie are quickly declining, investors appear to be less concerned that the companies will be forced to default on their loans. The perceived risk of buying debt from the companies fell on Friday, as measured by the yield on the 10-year Fannie Mae note, which declined relative to its comparable Treasury bill.

Investors may be feeling more confident that, even if the companies fail, the government would step in and guarantee their outstanding obligations.

Senior Bush administration officials are already considering a plan to have the government take over one or both of the companies and place them in a conservatorship if their problems worsen, according to people briefed about the plan.

Under a conservatorship, shares of Fannie and Freddie would be worth little or nothing, and any losses on mortgages they own or guarantee — which could be staggering — would be paid by taxpayers.

The government officials said that the administration had also considered calling for legislation that would offer an explicit government guarantee on the \$5 trillion of debt owned or guaranteed by the companies. But that is a far less attractive option, they said, because it would effectively double the size of the public debt.

The officials involved in the discussions stressed that no action by the administration was imminent and that Fannie and Freddie are not considered to be in a crisis situation. But in recent days, enough concern has built among senior government officials over the health of the giant

mortgage finance companies for them to hold a series of meetings and conference calls to discuss contingency plans.

Stephen Labaton contributed reporting from Washington.

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