S&P Lowers Fannie, Freddie Citing Reliance on Government By Lorraine Woellert –

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Standard & Poor's lowered credit ratings for Fannie Mae, Freddie Mac, and other lenders backed by the federal government. The U.S.-sponsored mortgage finance companies were lowered one step from AAA to AA+, and S&P said the downgrade reflects the companies' "direct reliance of the U.S. government." S&P lowered the U.S. credit rating on Aug. 5. (Source: Bloomberg)

Standard & Poor's lowered credit ratings on debt issued by Fannie Mae, Freddie Mac, and other lenders backed by the federal government, citing the U.S. loss of its AAA status.

The mortgage finance companies were lowered one step from AAA to AA+, S&P said in a statement today. The downgrade reflects their "direct reliance on the U.S. government," S&P said.

Fannie Mae and Freddie Mac were placed into government conservatorship in September 2008 as losses tied to subprime mortgage lending pushed them toward insolvency. Since then, the two government-sponsored enterprises, or GSEs, have drawn almost $170 billion in federal aid. The GSEs own or guarantee more than half of U.S. mortgage debt.

The downgrades of Washington-based Fannie Mae, Freddie Mac of McLean, Virginia, and other government-backed debt was predicted by some analysts after S&P lowered the U.S. sovereign credit rating by one level on Aug. 5. On Friday, banking regulators including the Federal Deposit Insurace Corp. said that government-issued securities would be "unaffected" by the sovereign downgrade.

Yields on GSE bonds jumped to their highest relative to U.S. Treasuries in more than two years. The downgrade was only part of the reason for the wider spreads, said Walt Schmidt, a mortgage strategist in Chicago at FTN Financial, in a note to clients. He said the spreads are "based on uncertainties regarding prepayments and supply, not credit-based downgrade fears."

More Downgrades

The credit rating company today also downgraded the senior debt of 10 of the nation's 12 Federal Home Loan Banks, from AAA to AA+. The home loan banks sell bonds and provide liquidity to banks and mortgage investors. The banks' debt has an implied government guarantee.

"The FHLB system is classified as being almost certain to receive government support if necessary" S&P said.

The home-loan banks of Chicago and Seattle are already rated AA+ and did not receive a further downgrade from the rating company. S&P also lowered, by a notch, debt issued by the Farm Credit System, which guarantees agriculture-related loans, the FDIC, which guarantees bank deposits, and the National Credit Union Association, which guarantees credit union deposits.

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