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Fannie Replaces CFO, Hopes for Recovery Rise

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Capitol Hill

WASHINGTON, DC-Events surrounding Fannie Mae and Freddie Mac continue to whipsaw the market. Several days ago, it was widely assumed the government would be forced to step in and bailout the GSEs--a move that would leave shareholders with near worthless stock. That sentiment has undergone a sharp reversal, with several market analysts revising their opinion about the GSE's long-term viability. Then, yesterday Fannie Mae announced it has restructured its upper management to help it

navigate the difficult credit environment.

While the market is still pondering the impact of the management makeover at Fannie, it is clear that even without the changes many now believe that Fannie Mae's reserves and capital are healthier than what had been assumed. "We conclude that Fannie should get through this difficult housing cycle with core capital remaining at or above the 15% excess capital requirement, which implies they don't need any more externally raised capital," a Lehman Bros. research note said.

Frederic Ruffy, the senior options strategist at WhatsTrading.com, a New York City-based provider of options market analysis, points to Merrill Lynch's Kenneth Bruce report that it was premature to talk about a capital infusion from the government. "Bruce said Fannie and Freddie financial cushion won't be depleted this year," Ruffy tells GlobeSt.com. Also, he continues, "Citigroup's Bradley Ball wrote that 'we are not convinced that (the government) needs to take any action over the near term.'"

As a result its stock is successfully battling back from recent losses "on the view that investors were too pessimistic about the outlook for the two mortgage giants.

"That view was reinforced after Freddie and Fannie sold a combined \$3 billion in short-term debt-- Fannie sold \$2 billion and Freddie \$1 billion. The stronger than usual demand was a good sign, as it suggests that investors are willing to step in now and buy the debt to capture the higher yields."

Fannie Mae, for its part, is taking even more aggressive steps to ensure its stability. It has replaced the CFO, Stephen Swad, and given vice president for capital markets, Peter Niculescu, an expanded

role. Also, Robert Levin, the chief business officer, will be retiring, and Enrico Dallavecchia, the chief risk officer, is stepping down.

Niculescu will have responsibility for the oversight of the three Fannie Mae business divisions--Single-Family Mortgage Guaranty, Capital Markets and Housing and Community Development. In addition, Niculescu will oversee the implementation of the company's capital management and credit-loss reduction plan.

CEO Daniel Mudd will remain at the helm, with the confidence of the Board of Directors still supporting him. The new team "will be responsible for meeting the dual objectives of conserving capital and controlling credit losses while Fannie Mae continues to provide crucial liquidity to the US housing and mortgage markets," Mudd says in a prepared statement.

"As we move through the bottom of this cycle, maintaining capital, managing credit and driving revenues are the priorities--and we have to organize and staff accordingly."

Still, though, no one is willing to bet definitively that these two agencies are out of the woods completely. In a research note issued prior to the management changes, Robert A. Knakal, chairman and founding partner at Massey Knakal Realty Services, says that Fannie and Freddie's capital needs "dwarf any capital the private equity community might have. While going to the public markets, the spreads, or differences, between Fannie's and Freddie's debt yields and Treasury yields have widened considerably since the start of the housing crisis because of jitters about the highly leveraged companies' stability."

Also, the bigger picture remains glum for many financiers--a state of affairs that will continue to be reflected in the GSEs' loan holdings for some time. Even under the best scenarios, "the next two to three years will be challenging ones," Russell Young, executive vice president with Commercial Texas, tells [GlobeSt.com](#). "It will take a while for rent growth to justify the prices that were paid for these assets."

That all said, what has been lost in the debate is the relatively small default rate of multifamily loans, Jamie Woodwell, MBA's VP of Commercial/Multifamily Real Estate Research, tells [GlobeSt.com](#), pointing to the recently released Mortgage Bankers Association's Quarterly Survey of Commercial/Multifamily Mortgage Bankers Originations. Fannie Mae and Freddie Mac reached record high originations in Q2, with very low delinquency rates, he says. Indeed, Q2--a time period when it was clear the GSEs were beleaguered by the market, "was one of the stronger quarters they have had on record," Woodwell says.