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Fannie Mae Falls Back Into the Loss Column

By NICK TIMIRAOS

Fannie Mae reported a net loss of \$6.5 billion for the first quarter as a weakening housing market dashed hopes that the company had stabilized.

Fannie said Friday it would ask the government for a fresh taxpayer infusion of \$6.2 billion after paying dividends to the Treasury. The loss follows net income of \$73 million during the previous quarter.

Fannie's loss came as it increased its loan-loss reserves after it revised down its home-price forecast for 2011, and took bigger-than-expected losses on the sale of foreclosed properties. The mortgage-finance giant booked \$11 billion in credit-related expenses, up from \$4.3 billion last quarter.

"Right now, we're not seeing a lot of good things in the residential real-estate markets," said David Hisey, acting chief financial officer for Fannie Mae.

Home-price declines pose a big risk to Fannie and its smaller sibling Freddie Mac because the firms could take steeper losses on a rising number of foreclosed homes that must be resold. Fannie and Freddie owned 218,000 homes at the end of March, a 33% increase from a year ago.

The rising losses came despite a decline in the share of single-family loans that were 90 days or more delinquent. Those fell to 4.27% at the end of March, down from 4.48% at the end of last year. Fannie has around \$206 billion in delinquent loans on its books, "so with that much exposure, if you just have a little bit of negative things happening, it can have a big impact," said Mr. Hisey.

Fannie's report comes days after Freddie Mac reported net income of \$676 million for the first quarter.

"It is clearly too soon to say that they've turned a corner," said Jim Vogel, an analyst at FTN Financial.

The federal government has committed unlimited sums to prop the companies up and keep mortgage markets from collapsing. So far, taxpayers are on the hook for around \$138 billion, with \$86 billion for Fannie and \$52 billion for Freddie.

The government receives preferred shares that pay a 10% dividend in exchange. At the current rate, Fannie must pay the government \$2.3 billion each quarter. Fannie has posted losses for 14 of the past 15 quarters.

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