Freddie-Fannie fiasco hits smaller banks, including Anchor

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Sep 20, 2008 (Milwaukee Journal Sentinel - McClatchy-Tribune News Service via COMTEX) -- FRE | Quote | Chart | News | PowerRating -- Sep. 20--The parent company of AnchorBank said it expects to take a $1.9 million charge against earnings this quarter because the Fannie Mae and Freddie Mac preferred stock it owns has lost almost all of its value since the federal takeover of the giant mortgage buyers this month.

Industry experts say it won't be the only bank in Wisconsin -- or nationally -- to take a hit to earnings because of the vaporized value of Fannie and Freddie stocks, which many banks had invested in for their dividends and perceived stability.

Many bankers are hoping that when Congress takes up the financial system rescue plan next week that something can be done -- such as favorable tax treatment -- to mitigate the damage. Otherwise, they say, Fannie and Freddie losses will be a heavy burden for many smaller banks, not only because they dent profits, but because the banks will be forced to reallocate capital that otherwise would allow for loan growth.

"I cannot believe that the condition of Freddie and Fannie changed so much in 8 1/2 months that they've now got to screw all these small banks," said Jon C. Bruss, chief executive of Fortress Partners Capital Management in Hartland, which invests in bank stocks.

Madison-based Anchor BanCorp Wisconsin Inc., which operates AnchorBank, the state's fourth largest, disclosed in a filing with regulators this week that more than $2 million worth of preferred stock in Fannie Mae and Freddie Mac was worth only $157,000 as of Monday.

Anchor said, however, that the deterioration in that stock would not affect the bank's ability to maintain capital ratios above regulatory requirements to be considered well capitalized. Executives at Anchor BanCorp weren't available for comment Friday.

Anchor shares fell 21 cents, or 2.3%, to close at $9.06 on Friday.

Many banks invested in Fannie and Freddie preferred stock because it was considered financially solid and paid dividends of more than 8%. That money allowed banks some growth in their net interest margins at a time when margins were being squeezed. A bank's net interest margin is the difference between the rates it pays for deposits and the rates it charges for loans and earns on its investments.

Kurt Bauer, chief executive of the Wisconsin Bankers Association, said implicit in Fannie Mae and Freddie Mac preferred stocks was the expected safety that would come with being government-sponsored enterprises.

The sudden loss of value of Fannie and Freddie stock has many bankers upset.

"That's an understatement," said Daryll Lund, chief executive of the Community Bankers of Wisconsin.

The national trade association for small banks, the Independent Community Bankers of America, sent a letter to Treasury Secretary Henry Paulson and other leaders Friday asking that community banks be allowed to treat losses on Fannie and Freddie preferred stock as ordinary losses for tax purposes.

The American Bankers Association also called for some relief, including restoration of at least part of the dividends.

"It is now clear that the conservatorship program for Fannie Mae and Freddie Mac is having a significantly greater negative impact on portions of the banking industry than first estimated by policy makers and regulators," the Association said in a statement.