Freddie Mac rises after rules eased

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Shares in **Freddie Mac** surged more than 8 per cent on Wednesday after the government-sponsored mortgage financier was granted greater flexibility to support the beleaguered US housing market.

The Office of Federal Housing Enterprise Oversight said it would lower a surcharge on the company's regulatory capital requirements after Freddie announced plans to raise $5.5bn in capital and reported its third consecutive quarterly loss.

The move helped to underscore the government's growing reliance on Freddie Mac and its larger rival **Fannie Mae** to support the US mortgage markets as purely private sources of finance have all but dried up. Freddie and Fannie buy mortgages in the secondary market and package them into securities.

But their growing role in the market has spawned concerns in some circles that the two companies might not have enough capital to withstand the plunge in the country's housing market.

Richard Shelby, the senior Republican on the Senate banking committee, said in an interview with the Financial Times that Fannie Mae and Freddie Mac were "thinly capitalised, highly leveraged and pose a systemic risk to taxpayers".

Freddie Mac and Fannie Mae agreed with Ofheo in March to raise capital in exchange for lowering the regulatory capital surcharge imposed on them after past accounting scandals from 30 per cent to 20 per cent.

Ofheo last week responded to Fannie's plans to raise $6bn of capital by lowering the group's surplus capital requirement to 15 per cent, subject to the successful completion of the capital raising. The regulator granted the same reduction to Freddie on Wednesday after the group said it planned to raise $5.5bn of capital in both common and preferred stock in the "near future".

Both agencies are seeking a further 5 per cent reduction in the surcharge by September.

Freddie's first-quarter loss of $151m equated to 66 cents a share, up from a loss of $133m, or 35 cents a share, a year earlier. It took a credit loss provision of $1.2bn and recorded credit-related expenses of $200m amid record foreclosures and sliding house prices.

"Market and credit conditions remained challenging during the first quarter of 2008. This stress is particularly evident in our increased credit-related expenses," said Richard Syron, chairman and chief executive of Freddie.

However, the company's loss narrowed compared with fourth-quarter losses of $2.5bn, or $3.97 a share, as the company experienced lower mark-to-market losses related to the implementation of new accounting rules.