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Asia Breathes Deep Sigh of Relief

Stocks Soar as Treasury's Action Allays Fears About U.S. Mortgage Holdings

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Financial institutions and governments across Asia yesterday applauded the takeover of Fannie Mae and Freddie Mac, a move that came after several central banks in the region expressed growing alarm over the future of their vast investments in the two ailing mortgage lenders.

Asian investors, led by central and commercial banks in China, Japan and South Korea, are among the largest holders of Fannie Mae's and Freddie Mac's mortgage-related debt, the value of which has now effectively been guaranteed by the U.S. government.

The takeover sent markets from Taipei to Tokyo jumping yesterday and calmed what had been growing concerns of investor flight in South Korea. The key stock index in Tokyo jumped 3.4percent yesterday. Hong Kong's jumped 4.3 percent, Seoul's 5.2 percent, and Taiwan's 5.6 percent.

Speaking at a meeting in Switzerland, the head of the Bank of Japan, Masaaki Shirakawa, said the Japanese expected the takeover "to stabilize the U.S. [mortgage-backed securities] market, financial market and the international financial market."

Japanese officials also suggested yesterday that they had offered the U.S. Treasury Department valuable advice on Fannie Mae and Freddie Mac based on the collapse of their country's real estate market in the early 1990s. Osamu Sakashita, a deputy cabinet secretary in the prime minister's office, told reporters in Tokyo that "the U.S. has been preparing to carry these measures out, and Japan, based on our past experience, has offered our views on this issue -- leading to this decision."

In recent weeks, officials from China's central bank in particular had shared concerns about the future of their U.S. mortgage-related debt -- estimated at more than $300 billion -- with U.S. officials. During those talks, described as "informal conversations" between economic and central bank liaisons in Beijing and Washington, Chinese officials expressed their desire for the United States to act quickly and decisively, according to a source familiar with the talks.

Asian banks, particularly in China, had begun curbing new purchases of Fannie Mae and Freddie Mac holdings and divesting themselves of those they already had. Investors generally had been insisting on higher interest rates -- driving up the companies' operating costs and pushing mortgage rates higher. U.S. officials hope the takeover plan will reverse that trend.

U.S. officials yesterday dismissed the notion that foreign central banks played a major role in their decision to place the two government-chartered lenders in conservatorship, calling the concerns in Asia simply one factor among many.

"We heard from many investors, foreign and domestic, and we listened as they shared their views," said Treasury spokeswoman Michele Davis.

Several financial analysts also played down the role of China's concerns in the takeover. They noted that while several banks in China had indeed begun to sell off some of their Fannie Mae and Freddie Mac holdings, the sales appear to have been relatively modest. Had China done anything to provoke a broader sell-off, few entities stood to lose more than the country's central bank -- which remains the largest holder of the firms' mortgage-related debt in Asia. A sell-off would have eaten away at the value of the holdings the bank still had.

"I don't think concern for the Chinese was a very big factor in Treasury's decision. They were obviously far more concerned with the U.S. financial system," said Eswar S. Prasad, a former International Monetary Fund expert on China and a senior fellow at the Brookings Institution. "But a side effect of this is going to be that foreign debt holders and central banks find themselves on safer ground now."

In South Korea, the most visible reaction to the news of the takeover was a 5.2 percent leap in the stock market yesterday as fears dissipated that its central bank and major financial institutions would be saddled with huge amounts of bad debt from Fannie Mae and Freddie Mac. In recent weeks, investors in South Korea have been uneasy about possible corporate failures and a sense that the economy was feeling the sting of the global economic slowdown.

"It provides stability to the market, which has been suffering from uncertainty," said Phillip Ham, the head of equities for Citigroup Korea in Seoul. "Now that big uncertainty has been removed, and we have seen the light."

Takashi Watanabe, a professor at Bunkyo University in the Tokyo area and a former bank supervisor for the Bank of Japan, said the Japanese see more than an echo of their own real estate market collapse in the current U.S. woes. During the 1990s, the United States harped at the Japanese government for propping up its troubled banking system. Watanabe noted that with Fannie Mae and Freddie Mac, the United States found itself facing a similar option. He predicted that like Japan, the United States would face more tough decisions before its can right the economy.

"It is a first step that the U.S. had to take to solve this issue," Watanabe said. "But this is not all they can do -- they will need to do more."

Staff writer David Cho in Washington, correspondent Ariana Eunjung Cha in Shanghai, and special correspondents Akiko Yamamoto in Tokyo and Stella Kim in Seoul contributed to this report.