

The U.S. government's landmark takeover of troubled mortgage giants Fannie Mae and Freddie Mac will also serve to boost banks in Israel, according to banking analysts.

Officials announced that both giant institutions were being placed in a government conservatorship, a move that could end up costing taxpayers billions of dollars. Treasury Secretary Henry Paulson said allowing the companies to fail would have extracted a far higher price on consumers by driving up the cost of home loans and all other types of borrowing because the failures would "create great turmoil in our financial markets here at home and around the globe."

Alon Glazer, banking analyst at Leader Capital Markets, says "The nationalization of Freddie Mac and Fannie Mae is good for the local banks."

"The banks that today hold bonds of Freddie Mac and Fannies Mae are Israel Discount Bank, Bank Leumi and First International Bank. As far as they are concerned, the nationalization is a positive step because now the bonds are those of the U.S. government - and their price can only go up," Glazer said.

"Israeli institutions do not seem to have shares in those banks, and if so it is only marginal."

Two months ago Discount's own portfolio held NIS 9 billion in U.S. mortgage-backed securities, and Bank Leumi had invested NIS 3.4 billion.

"The local banks' holdings, as far as we know, are in MBS [mortgage-backed securities] financial instruments. These products will benefit from the nationalization, since they become government protected," Glazer says.

Nationalization will "strengthen the safety of the securities the local banks hold," added Meir Slater, the banking analyst at Prisma investment house. "None of the local banks have announced that they hold shares of the [U.S. mortgage] banks, and it seems the shareholders are likely to be the biggest losers from the nationalization and may be left with nothing, or with significant dilutions. For the Israeli banks there is no danger in nationalization," said Slater.

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