Bernanke eases mortgage rates fears

Fed chief outlines plans to head off inflation, drain cash reserves

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WASHINGTON — Federal Reserve Chairman Ben Bernanke said Wednesday that he doesn't expect the central bank will sell its huge trove of mortgage securities in the short term, easing concerns that such a move would raise borrowing costs for home buyers.

But in prepared congressional testimony, Bernanke provided his most detailed blueprint yet for how the Fed intends to head off inflation by draining the massive reserves of cash it has pumped into the economy in the wake of the financial crisis.

Bernanke was scheduled to testify at a House Financial Services Committee hearing Wednesday that was canceled because of blizzard conditions. But the Fed released the text of his testimony.

Earlier this week, James Bullard, president of the Federal Reserve Bank of St. Louis, said the central bank should sell its mortgage securities before it raises short-term interest rates. The Fed's purchase of $1.25 trillion of mortgage-backed securities has pushed down mortgage rates and stoked the housing market. But Bullard and others fear the massive liquidity the Fed has injected into the financial system will spark inflation as the economic recovery heats up.


Bernanke

The Fed took the extraordinary steps of buying the mortgage securities and $300 billion of Treasury notes after moves to lower short-term interest rates to near zero failed to stimulate frozen credit markets.

Bernanke on Wednesday moved to ease market jitters. "I currently do not anticipate that the Federal Reserve will sell any of its security holdings in the near term, at least until after policy tightening has gotten underway and the economy is clearly in a sustainable recovery," he said in his testimony.

The Fed chairman also reiterated that low inflation and high unemployment will likely mean "exceptionally low" interest rates "for an extended period."

The Fed does plan to conclude its purchases of the mortgage securities by the end of the first quarter. Some economists fear that could drive up mortgage rates, and the Fed has indicated it could resume the buying if necessary. DeQuadros, however, says the move likely will push up rates by only about 0.5 percent.