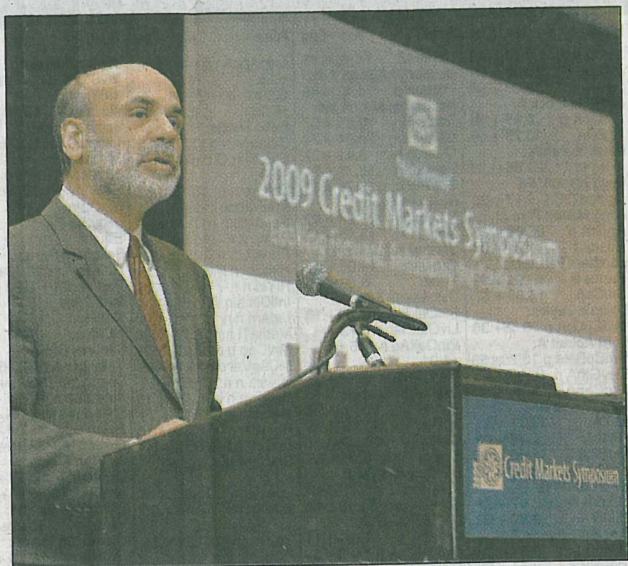
# Bernanke: Fed's strategy is working




CHUCK BURTON / The Associated Press

Federal Reserve Chairman Ben Bernanke acknowledges at a symposium in Charlotte, N.C., Friday, that the Fed was "extremely uncomfortable" about its bailout strategy.

## Central bank begins to see easing of some credit stresses

By Ieva M. Augstums and Jeannine Aversa

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CHARLOTTE, N.C. — While acknowledging that the Federal Reserve was "extremely uncomfortable" about last year's bailouts of big financial companies, Fed Chairman Ben Bernanke said Friday the central bank's strategy to ease the financial crisis is working.

Bernanke was referring to the Fed's unprecedented decisions last year to step in and financially back JPMorgan Chase & Co.'s takeover of then-troubled investment house Bear Stearns and throw its first of four financial lifelines to insurance giant American International Group Inc.

In remarks during a Fed conference in Charlotte, N.C., Bernanke said the central bank was forced to take action because the collapse of those companies would have dealt a serious blow to the financial system and the national economy.

The situation underscores the need for new powers to allow the government to safely wind down such huge firms, he said. Bernanke and Treasury Secretary Timothy Geithner recently asked Congress for such powers.

Since the financial crisis erupted in 2007, the Fed's balance sheet — its assets and liabilities — has more than doubled to $2 trillion from $870 billion. Credit provided under those company bailouts accounts for only 5 percent of the Fed's current balance sheet, Bernanke said.

Still, "these operations have been extremely uncomfortable for the Federal Reserve to undertake and were carried out only because no reasonable alternative was available,"

See FED on page 3B

FED FROM PAGE 1B

he said.

Bernanke also signaled that the central bank is keeping a close eye on the size of commercial banks' reserve balances held at the Fed. If those balances aren't managed right, they could complicate the Fed's task of "raising short-term interest rates when the economy begins to recover or if inflation expectations were to begin to move higher," Bernanke said.

The Fed's radical programs to bust through the financial crisis and spur bank lending to consumers and businesses are helping. Its program to provide financial companies with loans, buy mounds of debt that companies rely on for short-terming financing of payrolls and supplies, and efforts to bolster consumer lending and the mutual funds have eased some credit stresses, he said.

Such efforts by the Fed, along with central banks in other countries, have "significantly reduced funding pressures for financial institutions, helped to reduce rates in bank funding markets and increase overall financial stability," Bernanke said.

Getting banks to boost lending to customers is a key ingredient to any economic turnaround. The Fed chief said he expects to see a "gradual resumption of sustainable economic growth." However, he didn't say when.

Those attending the conference, a two-day event that focused on credit markets and was put on by the Federal Reserve Bank of Richmond, had their own predictions.

"My personal feeling is that we've hit bottom, and we're going to be at the bottom for a while," said Wesley Sturges, president of the Bank of Commerce in Charlotte. "We may be able to see positive things late fourth quarter, early part of next year."

During his speech, Bernanke also defended the Fed's decisions to revive the economy by plowing trillions of dollars into efforts to stabilize the banking system and to lower interest rates. Its program to buy mortgage-backed securities of Fannie Mae and Freddie Mac has helped drive down the rate on 30-year mortgages to record lows.

"These are extraordinary challenging times for our financial system and our economy," Bernanke said. "I am confident that we can meet these challenges, not least because I have great confidence in the underlying strengths of the American economy."