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Fed slashes key rate to record low

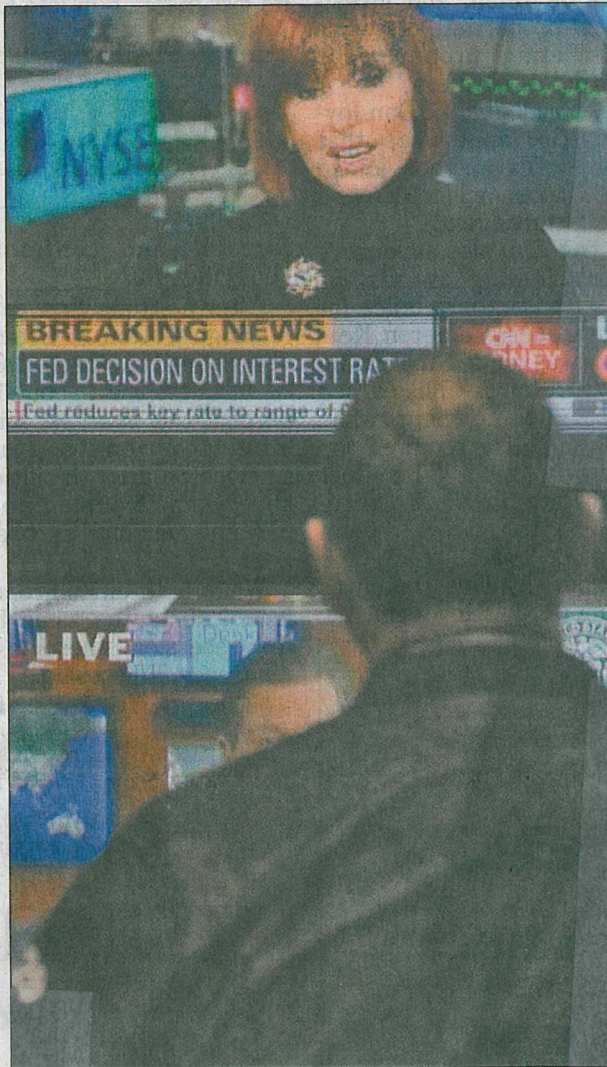
THE ASSOCIATED PRESS

WASHINGTON — The Federal Reserve has cut its target for a key interest rate to the lowest level on record and pledged to use “all available tools” to combat a severe financial crisis and prolonged recession.

The central bank on Tuesday said it had reduced the federal funds rate, the interest that banks charge each other, to a range of zero to 0.25 percent. That is down from the 1 percent target rate in effect since the last meeting in October. Many analysts had expected the Fed to make a smaller cut to 0.5 percent.

The Fed’s aggressive move was greeted enthusiastically by Wall Street. The Dow Jones industrial average rose about 350 points in late-afternoon trading.

The Fed’s action and statement made clear that economic conditions have worsened since its last meeting in October.



The Associated Press

A specialist on the New York Stock Exchange watches reports about the Fed's rate cut.

Federal Reserve Chairman Ben Bernanke and his colleagues said they will use unconventional methods to try to contain a financial crisis that is the worst since the 1930s and a recession that is already the longest in a quarter-century. For example, the Fed last month said it planned to purchase up to \$600 billion in direct debt and mortgage-backed securities issued by big financial players including Fannie Mae and Freddie Mac in an effort to boost the availability of mortgage loans.

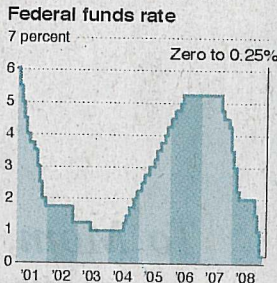
That move was one of a series the central bank has taken to increase its loans by hundreds of billions of dollars as a way to deal with the worst financial crisis to hit the country in more than 70 years.

The Fed on Tuesday also made clear that it intends to keep the funds rate at extremely low levels.

"The committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time," the central bank's panel that sets interest rates said in a statement.

Historic rate cut

The Federal Reserve cut its key interest rate to a range of zero to 0.25 percent, an all-time low.



SOURCE: Federal Reserve AP

Even before the announcement of a lower target, the funds rate has been trading well below the old target of 1 percent. For November, the funds rate had averaged 0.39 percent. Analysts said it was likely to fall further with the Fed setting the new target as low as zero.

The Fed's decision was matched by a reduction in the prime lending rate, the benchmark rate for millions of business and consumer loans. Banking giant Wells Fargo and Co. said it was cutting its prime rate to 3.25 percent, down from

4 percent before the Fed action. Other banks are expected to quickly match Wells Fargo's move.

The Fed has never pushed its target for the federal funds rate as low as zero to 0.25 percent. The lowest target rate before had been 1 percent, a level seen only once before in the past half-century.

Given how low interest rates are, the central bank said it planned to use a variety of unconventional methods to flood the banking system with credit and drive interest rates lower.

"The Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability," the Fed said.

The announcement on the deployment of unconventional methods had been expected given that Bernanke and other Fed officials have sought in recent comments to let

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