# Fed slows program to aid housing market



## Key lending rate also held steady

By Jeannine Aversa
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WASHINGTON — With the economy on the mend, the Federal Reserve on Wednesday said it is slowing the pace of a program to lower mortgage rates and prop up the housing market.

The Fed decided to stretch out its goal of buying $1.45 trillion in mortgage-backed securities and debt issued by Fannie Mae, Freddie Mac and Ginnie Mae until the end of the first quarter of 2010. Originally, the central bank intended to complete buying those securities by the end of this year.

It marked the second time since August that the Fed has opted to slow some of its extraordinary support to revive the economy and spur Americans to boost spending. It shows that Fed Chairman Ben Bernanke and his colleagues are increasingly confident the recovery will take hold.

In a more upbeat assessment, the Fed said: "Economic activity has picked up following its severe downturn." When the Fed last met in August, policymakers declared that economic activity was "leveling out."

Even with the pickup in economic activity, Fed policymakers predict inflation will remain "subdued for some time."

To foster the recovery, the Fed also decided to hold the target range for its key bank lending rate at a record low of between zero and 0.25 percent. It again pledged to keep rates there "for an extended period." Economists predict that means through the rest of this year, and perhaps into part of next year.

Holding that bank lending rate steady means commercial banks' prime lending rate — used to peg rates on home equity loans, certain credit cards and other consumer loans — will stay at about 3.25 percent, the lowest in decades. The goal is to entice people and businesses to step up spending to aid economic growth.

Even though the Fed will stretch out its purchases of mortgage securities, rates for home loans should remain low "in the 5 percent range" as long as the purchases continue, said Guy Cecala, publisher of Inside Mortgage Finance.

If the Fed hadn't extended its deadline, it would have faced pressure to buy more than $600 billion in mortgage-backed securities by December, said Brian Bethune, an economist with IHS Global Insight. A sudden withdrawal from the market after such rapid purchasing could have caused major disruptions. Low inflation and bond yields also will keep mortgage rates low, he added.

"They want to stabilize the markets, they want to contain excess volatility, but they don't want to be a market-maker," Bethune said. "This is the best thing they could have done."