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Fed to use $1 trillion to boost economy

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WASHINGTON — The Federal Reserve announced Wednesday it will inject about $1 trillion into the economy in an effort to help the housing market and lift the country out of recession.

At the same time, the Fed left a key short-term bank lending rate at a record low of between zero and 0.25 percent. Economists predict the Fed will hold the rate in that zone for the rest of this year and for most — if not all — of next year.

In a new program, the Fed said it will buy up to $300 billion of long-term bonds, a move that should boost Treasury prices and drive down their rates. That would ripple through and lower rates on other kinds of debt. The last time the Fed set out to influence long-term interest rates was during the 1960s.

And expanding an existing program, the Fed said it will buy more mortgage-backed securities guaranteed by Fannie Mae and Freddie Mac. The central bank will buy an additional $750 billion, bringing its total purchases of these securities to $1.25 trillion. It also will boost its purchase of Fannie and Freddie debt to $200 billion.

"This is not only going to keep mortgage rates low for a long period of time," said Greg McBride, a senior financial analyst at Bankrate.com. "The mere announcement may produce a honeymoon effect and bring mortgage rates down to even lower levels in the coming days."

In addition, the Fed said a $1 trillion program to jump-start consumer and small business lending could be expanded to include other financial assets.

The program, which is rolling out this week, currently is focused on spurring lending for autos, education, credit cards and loans for business equipment. The government already has announced an expansion to include commercial real-estate assets.

Fed Chairman Ben Bernanke and his colleagues are taking the new steps as the economy sinks deeper into recession.

The Fed hoped its actions, the government's banking rescue effort, and President Barack Obama's $787 billion stimulus of increased government spending and tax cuts eventually will help revive the economy.