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**ECONOMY**

# Fed to Begin Buying Mortgage-Backed Securities

By THE ASSOCIATED PRESS JAN. 5, 2009

The Federal Reserve Bank of New York said Monday that it had begun purchasing mortgage-backed securities in an effort to bolster the battered housing market.

The program, initially announced Nov. 25, allows the Fed to spend \$500 billion to buy mortgage-backed securities guaranteed by mortgage giants Fannie Mae and Freddie Mac and another \$100 billion to directly purchase mortgages held by Fannie, Freddie and the Federal Home Loan Banks. The program is aimed at driving down the price of mortgages and making home loans more available.

The New York Fed is overseeing the program for the Federal Reserve. The New York Fed is working with four investment managers — BlackRock, Goldman Sachs Asset Management, PIMCO and Wellington Management Company — to purchase the securities.

Up to \$500 billion in securities will be purchased by the end of the second quarter.

The mortgage-backed securities being purchased are considered investment grade and are not the packages of loans that helped ignite the current credit market turmoil. An initial sharp rise in defaults in 2007 among subprime mortgages — loans given to customers with poor credit history — helped touch off the continuing credit market downturn. As defaults continued to rise, the value of securities backed by

subprime mortgages plummeted and investors shied away from purchasing the risky debt.

Mortgage-backed securities guaranteed by Fannie Mae and Freddie Mac are typically higher-quality prime mortgages and not pools of subprime loans, meaning they carry less risk.

In October, the government said it would purchase those riskier subprime securities from banks in an effort to rid the sector of the assets that have led to hundreds of billions of dollars in losses and write-downs. But, the administration altered its plan and decided instead to use its \$700 billion program to invest directly in banks.

A spokesman for the New York Fed said the bank expected to provide weekly details of the purchasing program beginning Thursday. The details could potentially include information such as the amount of debt purchased along with other characteristics of the securities, he added.