

Bernanke: Fannie, Freddie in no danger of failing

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WASHINGTON — Federal Reserve Chairman Ben Bernanke told Congress on Wednesday that troubled mortgage giants Fannie Mae ([FNM](#)) and Freddie Mac ([FRE](#)) are in "no danger of failing."

The Fed chief made his remarks to the House Financial Services Committee, his second day on Capitol Hill where he briefed lawmakers on the problems plaguing the economy.

Bernanke appeared amid a backdrop of fading confidence in the U.S. financial system and in the national economy.

The Fed and the Treasury Department on Sunday came to the rescue of mortgage giants Fannie Mae and Freddie Mac, offering to throw them a financial lifeline.

The two companies hold or guarantee more than \$5 trillion in mortgages — almost half of the nation's total. The Bush administration is asking Congress to temporarily increase lines of credit to Fannie and Freddie and to let the government buy their stock. The Fed has offered to let the companies draw emergency loans.

The pledges of aid have raised concerns on Capitol Hill and elsewhere about the government's role in intervening to ease such financial troubles and the risk posed to taxpayers.

The two mortgage giants are "adequately capitalized," Bernanke said. However, "weakness of market confidence is having an effect" on the companies, making it difficult for them to raise capital

The companies' shares have plunged as losses from their mortgage holdings threatened their financial survival.

The government's rescue plan was intended to send a signal to nervous investors worldwide that the government is prepared to take all necessary steps to prevent the credit market troubles that started last year from engulfing financial markets and further weakening the economy and housing markets.

Treasury Secretary Henry Paulson told Congress on Tuesday that he hopes this lifeline won't need to be used. He said the pledge was aimed at boosting eroding investor confidence in the companies.

The Fannie and Freddie troubles came on the heels of the failure of IndyMac Bank. Earlier this year, a run on investment bank Bear Stearns pushed the company to the edge of bankruptcy and into a takeover by JPMorgan Chase, backed financially by the Fed.

For a second day in a row, Bernanke outlined the economy's problems, including a housing slump, financial turmoil, credit troubles and high energy and food prices.

Caught between risky cross currents of plodding growth and rising inflation, Fed policymakers are facing "significant challenges" as they try to find a way to right the economy, Bernanke told lawmakers.

The Fed can't afford to lower rates again to shore things up because it will aggravate inflation. On the other hand, boosting rates to fend off higher prices would deal a setback to the fragile economy and the already crippled housing market.

Against that background, most economists predict Bernanke and his colleagues will leave rates alone when it meets next on Aug. 5.

It's difficult to chart a course when uncertainty abounds, Bernanke said.

Over the rest of this year, the economy will grow "appreciably below its trend rate" mostly because of continued weakness in housing markets, high energy prices and tight credit conditions.

At the same time, inflation has remained high and "seems likely to move temporarily higher in the near term," Bernanke warned lawmakers.

On that front, consumer prices jumped 1.1% in June, the fastest pace since September 2005, the government reported Wednesday. Another report, from the Fed, showed industrial production rising 0.5% in June. However, the increase reflected an end to an automotive production strike rather than any widespread strength in the economy.

Courtesy of JB Goodwin