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Fed vows, then pumps massive funds to calm markets

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By Glenn Somerville and Tamawa Kadoya

WASHINGTON/NEW YORK (Reuters) - The U.S. Federal Reserve on Friday sought to reassure investors and head off spreading credit problems by vowing to provide liquidity and injecting the most money in the banking system since shortly after the September 11, 2001, attacks.

The U.S. central bank rarely issues statements about its market operations and the largess of its fund injections reflect the seriousness that it views the current disorder in credit markets.

Much of the disorder stems from problems in U.S. housing markets where defaults on subprime mortgages to less creditworthy borrowers are rising.

With the problems spreading to Europe and affecting financial markets globally, the Fed worked in tandem with other central banks to pump liquidity into the banking system.

"The Federal Reserve is providing liquidity to facilitate the orderly functioning of financial markets," the Fed said in a statement shortly before U.S. stock markets opened on Friday and resumed a downward spiral.

The U.S. central bank said it was doing so because it anticipates banks might encounter some difficulties amid current market turmoil.

"In current circumstances, depository institutions may experience unusual funding needs because of dislocations in money and credit markets," the Fed statement said, adding it will provide funds as needed to keep the fed funds rate close to its target of 5.25 percent.

The last time the central bank made a similar statement was after the September 11, 2001, terror attacks, when it also said it would do what was necessary to keep markets functioning normally.

The Fed pumped a total of \$38 billion in temporary funds in three separate occasions on Friday, a highly unusual move not seen since July 2000. [Continued...](#)

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