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## Kohn: Fed is developing new exit tools

By JEANNINE AVERSA (AP) – 1 hour ago

WASHINGTON — The Federal Reserve is developing some new tools for reeling in the extraordinary support it's provided to the economy, Fed Vice Chairman Donald Kohn said Wednesday.

However, Kohn and Federal Reserve Bank of Atlanta President Dennis Lockhart said they see no need to rush to boost interest rates because there are still risks to the unfolding recovery.

Kohn repeated the Fed's renewed pledge from last week that the central bank will keep rates at a record low near zero for an "extended period."

Many economists predict that will be through the rest of this year and into part of next year.

Deciding when to boost rates and rein in the support will be "challenging," Kohn acknowledged during a speech at the Cato Institute in Washington.

Lockhart also struck a cautious note about removing support to soon. "I think it may well be some time before (a) comprehensive exit need be under way," he said in a speech in Mobile, Ala.

It's a tricky decision for the Fed. Tightening too soon could short-circuit the recovery. Waiting too long could unleash inflation.

"I can't predict how rapidly we will have to raise short-term interest rates," Kohn said, adding that depends on how the recovery unfolds.

The troubled commercial real-estate market, a fragile housing sector, rising unemployment and still hard-to-get credit could weigh on the recovery, Lockhart said. He noted that economic recoveries after recession tend not to be strong.

In recent days, other Fed officials have raised the prospect of having to raise rates quickly once the economy gains traction to ward off inflation. The central bank is working on tools to do that smoothly when the time is right, Kohn said.

Those new techniques include selling mortgage-backed securities from its portfolio with an agreement to buy them back later and setting up the equivalent of certificates of deposit for banks at the Fed, he said.

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