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# Fed Turns Over Record $78.4 Billion Profit to Treasury

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The Federal Reserve reported Monday its earnings jumped by more than 50 percent in 2010 to a record $80.9 billion on its massive holdings of securities, and it is turning the bulk of it over to the U.S. Treasury Department.

The $78.4 billion that the Fed is remitting to Treasury is also a record and is $31 billion more than a year earlier. In 2009 the Fed had net income of $53.4 billion.

The Fed's portfolio has ballooned to $2.16 trillion, roughly triple its size before the financial crisis, as it purchased securities including U.S. government debt and mortgage-linked bonds in a move to drive down borrowing costs and stimulate the economy.

"The increase was due primarily to increased interest income earned on securities holdings during 2010," the U.S. central bank said in releasing preliminary unaudited results.

Audited results will be issued in the spring and may show some changes, Fed officials indicated.

After driving overnight interest rates close to zero percent in December 2008, the Fed bought $1.7 trillion of longer-term Treasury and mortgage-related bonds as a supplement to its pledge to keep overnight rates near zero for a long time.

It followed that up late last year with a new $600 billion bond-buying program — again intended to spur growth by pumping liquidity into the economy. That program ends at mid-year.

The Fed turns over profits to the Treasury annually and has never posted a loss. But the central bank took a number of extraordinary actions during and after the 2007-2009 financial crisis that critics say may have left it with some poor-quality holdings.

**Doubts on All Sides**

Critics fault the Fed on several scores, with some claiming its actions have sown the seeds for a potential flare-up in inflation and others saying it has put the central bank at risk of destabilizing losses when it sells down its holdings.

If credit losses were to pile up, those criticisms could mount.

In addition, some foreign governments have charged that the Fed's easy money policies could weaken the dollar and spark a round of competitive currency devaluations.

Fed officials who briefed reporters said asset sales would be part of a so-called "exit strategy" from loose monetary policy, but only once the economy was on a sound footing. That means sales of the securities may be some way down the road, they added.

A Fed official said that if the central bank had to make sales and take some losses, it could always scale back the amount it remits to the Treasury. But there is no mechanism in place for it to get past remittances returned by the Treasury.

In testimony to Congress on Friday, Fed Chairman Ben Bernanke gave no sign the Fed was ready start scaling back its bond purchase program.

Nor did the Fed chief give any hints about further buying beyond the June deadline for the $600 billion program.

The Fed said its 2010 income included $76.2 billion in income on securities bought through open market operations, including Treasury and mortgage-linked debt, $7.1 billion from limited liability companies created in response to the financial crisis, $2.1 billion in interest income from credit extended to **American International Group** and $1.3 billion of dividends on preferred interests in **AIA Aurora** and **ALICO Holdings**.



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