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Banks plan fund to revive market

The three largest US banks have announced a plan to buy up billions of dollars of troubled investments that lost value in the global credit crunch.

The US sub-prime mortgage sector has seen record defaults

The unusual move aims to boost confidence in the market for short-term and sub-prime debt, preventing a further sell-off of such investments.

The fund, facilitated by the US Treasury, was announced by Citigroup, Bank of America and JP Morgan.

The size of the fund was not disclosed, but reports put it at about $80bn.

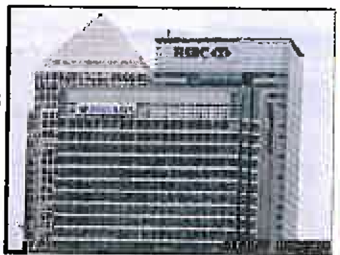
The fund is an effort to unblock credit after a squeeze prompted lenders to scale back many types of lending.

Firesale

Analysts say the big US banks hope their move will deter the current holders of sub-prime mortgage securities from dumping them on the market at knockdown prices.

The fund should help restore normal credit conditions for mortgage securities, but also for short-term corporate loans that many firms need to meet payroll and day-to-day expenses.

"This proposal will complement other solutions investors and asset managers may utilise in committing and deploying capital to support more efficient markets," the Treasury Department said in a statement.



The FSA will support any British banks involved in the fund

Citigroup has said it suffered losses of more than $3bn from writing down securities backed by underperforming mortgages and loans tied to corporate buyouts.

Reports said that British banks HSBC and Barclays were involved in the move, but HSBC said it had not participated in the talks and there were currently no plans for a similar fund in Europe.

The Financial Services Authority, the UK finance watchdog, said that it would be supportive of any UK bank that participated in the fund.

The US banks said other global banks and brokerages would participate in the plan, but did not disclose any other company names.

Record defaults

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The discussions are similar to those conducted in 1998 to help organise the bailout of hedge fund Long Term Capital Management.

Higher US mortgage rates have sparked record home loan defaults among people who have poor credit histories.

These defaults have hit financial markets worldwide, because the sub-prime mortgages had been packaged up and sold to financial institutions around the world.

This has caused a wider credit squeeze, as banks and other investors have been less willing to lend to each other while it is unclear where the bad debts lie in the system.

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