Top policymakers at the Federal Reserve felt for most of 2007 that problems in housing and banking were isolated and unlikely to tear down the U.S. economy as they ultimately did.

Even as crisis signals started flashing red with the freezing of credit markets during the summer, Fed officials believed the troubles would be moderate and short-lived, according to transcripts of the 2007 meetings released on Friday after the customary five-year lag.

U.S. Treasury Secretary Timothy Geithner, then president of the New York Federal Reserve Bank, said during an emergency telephone call on August 10 of that year that most of Wall Street was still doing fine.

"We have no indication that the major, more diversified institutions are facing any funding pressure," Geithner said according to the transcripts, which total 1,370 pages. "In fact, some of them report what we classically see in a context like this, which is that money is flowing to them."

Similarly, Fed Chairman Ben Bernanke underestimated the risks of a looming financial blow-up.

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"I do not expect insolvency or near insolvency among major financial institutions," he said in December 2007.