

Compliments of

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## Fed Begins MBS Purchases

Weak economic data and strong demand for mortgage-backed securities (MBS) helped mortgage rates remain at historically low levels during the week. Refinancing activity has increased dramatically as borrowers have rushed to take advantage of low rates. As a result, backlogs have developed at almost every step in the origination process, extending the time necessary to close many loans.

On November 25, the Fed announced a plan to purchase as much as \$500 billion in MBS. On Monday, the Fed revealed that it had begun to actually purchase securities. The Fed reported that it bought \$10.2 billion of a wide range of MBS. Mortgage rates are affected by MBS prices, and this added demand for MBS helped support low rates.

Investors knew that the economy was in tough shape in December, so there was little reaction to Friday's ugly Employment report. The economy lost 524K jobs in December, and 2.6 million jobs were lost in 2008, mostly during the final four months of the year. The manufacturing and construction sectors remained weak, while there were small gains in education and health care. One bright spot was that wage growth increased at a faster than expected 3.7% annual rate. The current economic weakness also helps support these low mortgage rates.

## Capacity Issues Force Rate Pressure and Slow Transactions to a Crawl

As the mortgage industry contracted over the past 12 months, many lenders cut costs and reduced staff. With the recent surge in refinance business due to historically low rates, lenders are unable to handle the inflow of loans. Most lenders will no longer allow loans to be locked on a 30-day commitment unless the completely processed file (verified income and asset documentation, appraisal, and title work) has already been submitted. In the past, brokers were allowed to lock for 30 days pending the receipt of the file. With some lenders taking 18 business days before they even touch a submitted file, it could take as long as 45 calendar days to complete a transaction. The greatest effect this capacity issue has had on the mortgage market is that lenders swamped with business no longer need to price to be competitive. Many lenders this week raised rates at times that were contrary to movements in the bond market..

### Events This Week:

Employment Lower

ISM Services Rose

Pending Sales Fell

Manufacturing Mixed

### Events Next Week:

Wed 1/14

Retail Sales  
Import Prices

Thur 1/15

PPI

Fri 1/16

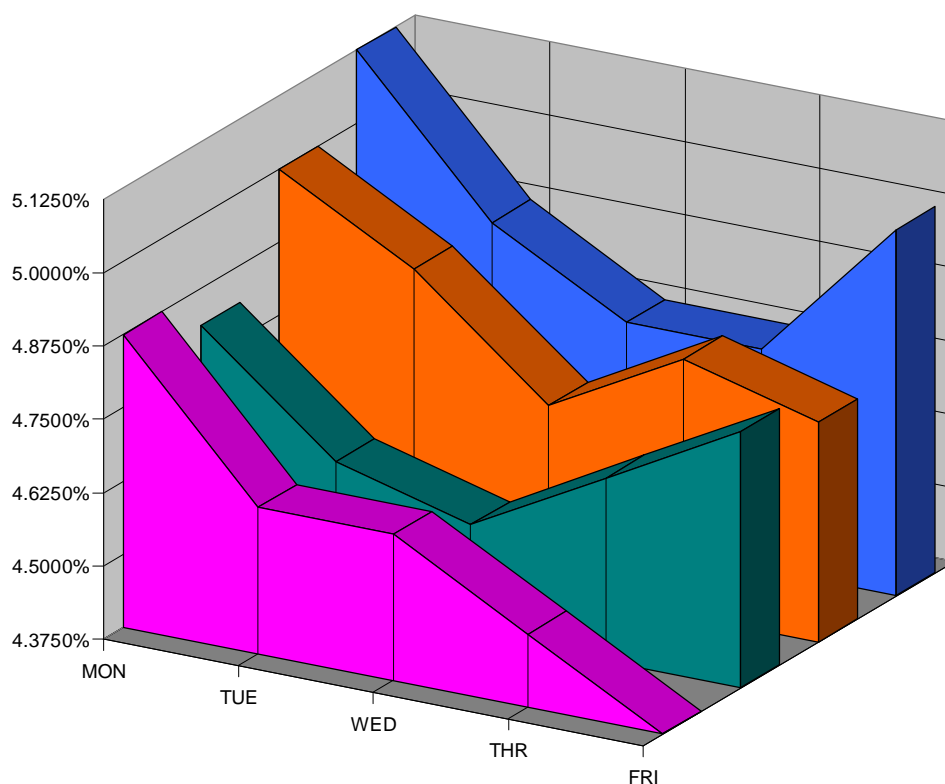
CPI  
Industrial Prod.  
Sentiment

### Also Notable:

- The December Unemployment Rate jumped to 7.2%, the highest since 1993
- The Fed's Yellen favors "pulling out all the stops" to stimulate the economy
- The Bank of England cut interest rates by 50 basis points
- After rising to \$50 per barrel on Tuesday, oil prices fell back to \$40 per barrel

### Daily Rates from Hawaii's Top Lender's

Fannie Mae Base Rate (30-YR-FXD)



Average 30 yr fixed rate:

Last week:	+0.14%
This week:	-0.09%

Stocks (Weekly):

Dow:	8,599.18	-178.49
NASDAQ:	1,571.59	-5.44

### Week Ahead

The monthly inflation reports will highlight the economic calendar next week. The Consumer Price Index (CPI), the most closely watched monthly inflation report, will come out on Friday. CPI looks at the price change for those finished goods which are sold to consumers. The Producer Price Index (PPI) focuses on the increase in prices of "intermediate" goods used by companies to produce finished products and will come out on Thursday. In addition to the inflation data, Retail Sales will be released on Wednesday. The Retail Sales report is a major indicator of spending levels by consumers, who account for about 70% of economic activity. Industrial Production, another important indicator of economic activity, will be released on Friday. Consumer Sentiment and Import Prices will round out the schedule

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