

Compliments of

Alan Zukerkorn  
President

Hawaii Mortgage  
Company Inc.

PHONE:  
(808) 988-6622  
(888) 632-6622

alan@hawaiimortgage.net

## Stimulus Plan Finalized

Government announcements dominated the financial news this week. Updates on two major programs both were favorable for mortgage markets, and mortgage rates fell modestly during the week.

The most highly anticipated news concerned Tuesday's speech from Treasury Secretary Geithner on the financial institution assistance plan. This "Financial Stability Plan" involves multiple programs to remove bad assets from banks' books and to support new lending. It also contains funds to help prevent foreclosures. Investors were sorely disappointed by the lack of details about how the plans would work, however, and they responded to the uncertainty by purchasing relatively safer assets. The stock market plunged, while Treasury and mortgage-backed security markets rallied, pushing rates lower. Geithner suggested that more information about a plan to purchase troubled assets and a comprehensive housing program will be released in the next few weeks.

Later in the week, the House and the Senate agreed on a compromise \$787 billion fiscal stimulus plan, which was passed today on strict party lines. President Obama is expected to sign the legislation into law shortly. The Obama administration estimates that the plan will create 3.5 million jobs. Both the House and the Senate had passed versions which were larger than the final compromise plan, and the reduction in scope helped mortgage markets. A smaller plan means that the government will have to issue less debt. Unfortunately, one of the spending cuts in the final plan was a provision for a \$15,000 homebuyer tax credit, which came with an estimated price tag of \$35 billion. Instead, the government will leave in place an existing \$7,500 tax credit, applicable to only first time homebuyers. The primary change to the tax credit is that it will no longer need to be repaid. The estimated cost of this \$7,500 tax break is less than \$3 billion.

## Fannie / Freddie Drive Up Costs On Loans

So much attention and talk have been given to how the two huge GSE's have reigned in their lending guidelines to make getting a loan more difficult. Consumers have not heard a word about how Fannie & Freddie's new "Risk Based Scoring" along with their change in rebate pricing is causing major changes to closing costs. Several months ago the two GSE's mandated their new "risk based scoring system" to increase the rates to adjust for higher risk loans. Normally there are "add-ons" to the rate and/or to the fees (points) a consumer will be judged on for such items as credit score, loan-to-value, or if it is an investment property. Until recently, a consumer could elect to receive a higher rate to offset higher point costs. Fannie and Freddie have also recently adjusted rebates on higher interest rates sharply lower. For many years one-point in rebate fees equated to about one-half percent in rate. Today one-point in rebate fees would send the interest rate up by one full percent. In effect, the two GSE's have mathematically eliminated rebates to offset loan fees. The reason for the change has to do with research that backs up what most people already know – Americans no longer hold a mortgage for a very long period of time. Investors who purchase Mortgage Backed Securities are now finally realizing that they were losing money when the typical length the average mortgage is in place before it is paid off has dropped from 77 months to just 31.

## The ZERO Point Loan Is Virtually A "Thing of the Past"

If you were to add up all the "risk based scoring" add-ons to someone with good average credit (695), has a 10% down payment, and is purchasing a condo, the add-ons total 1.5 points. An investor purchasing a condo with 20% down with the same credit score would be charged 4.5 points! These fees do not include any origination fee to the bank or broker. What Fannie and Freddie have done is quietly said they no longer want investor loans, or consumers with less than perfect credit.

If you would like greater detail on how risk based scoring or how higher rates offset loan fees, please give me a call.

### Events This Week:

Retail Sales Higher

Sentiment Lower

Jobless Claims Rose

Manufacturing Mixed

### Events Next Week:

Wed 2/18  
Industrial Prod.  
Housing Starts

Thur 2/19  
PPI  
Leading Indicators

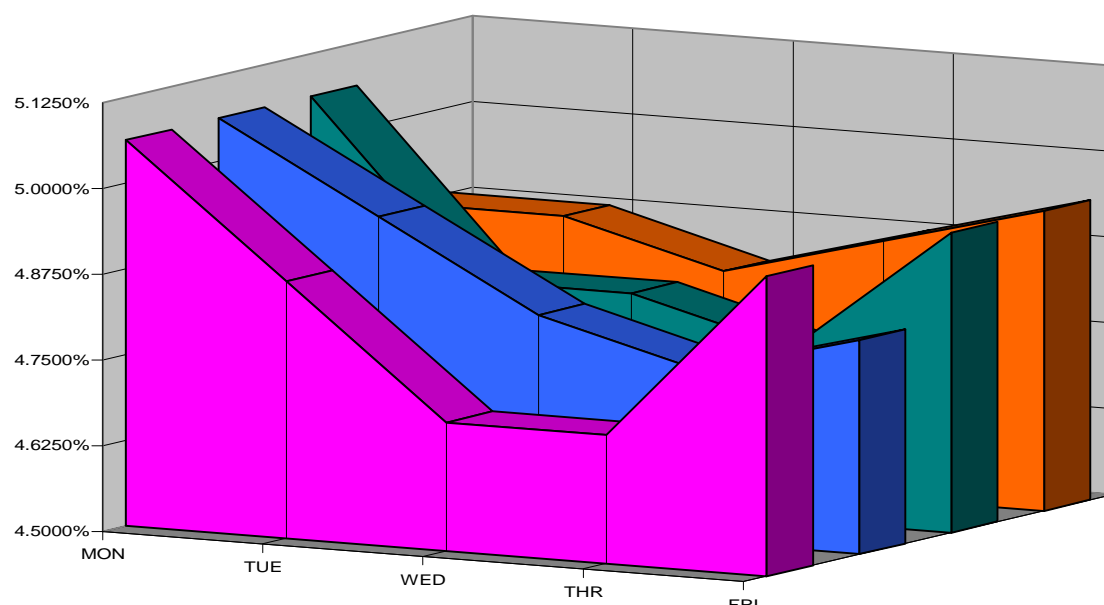
Fri 2/20  
CPI

### Also Notable:

- January Retail Sales posted the first increase in seven months
- Continuing Jobless Claims rose to a new record high
- Oil prices fell below \$35 per barrel, to the lowest level of the year
- The Fed purchased \$23 billion in agency MBS during the week ending 2/12

## DAILY RATES FROM HAWAII'S TOP LENDERS:

Fannie Mae Base Rate (30-YR-FXD)



Average 30 yr fixed rate:

Last week:	+0.06%
This week:	-0.17%

Stocks (weekly):

Dow:	7,900	-300
NASDAQ:	1,540	-35

**Above rates do not reflect "add-ons" such as low credit scores, high loan-to-value, or investment properties.**

### Week Ahead

Inflation data will highlight a full 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. Industrial Production, an important indicator of economic activity, and Housing Starts will be released on Wednesday. In addition, investors will continue to wait for details from the Treasury on the Financial Stability Plan. Mortgage markets will be closed on Monday in observance of Presidents Day.

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