

Compliments of

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### Supply Concerns Raise Mortgage Rates

All the economic news released during the week indicated that future inflation concerns should be minimal. In addition, the Fed purchased more mortgage-backed securities (MBS) than in any prior week. Despite these favorable events, however, mortgage rates rose slightly during the week. The reason is that concerns about the enormous supply of debt that the government will need to issue outweighed the other factors.

The amount of money the US Treasury will need to borrow to fund government spending seems to rise every week. Two weeks ago, it was the \$787 billion Economic Stimulus Plan. Last week, the government announced the \$275 billion Financial Stability Plan. This week, the Obama administration proposed a \$3.6 trillion budget plan, with an estimated deficit of \$1.75 trillion, which is enormous by historical standards. The Treasury will need to issue debt to borrow money to fund all of this. As the government issues more debt, the interest rate offered generally must rise to attract additional investors. Interest rates on similar investments such as MBS then move higher as well to compete for funds from investors.

Reflecting their concerns about an increase in supply, investors required higher interest rates at the large Treasury auctions during the week. The auction results showed that demand from foreign investors remained strong, which was very good news. If foreign investors should ever reduce their purchases of US bonds, then interest rates in the US would be likely to rise.

### Fannie & Freddie Announce Higher Costs For All Types of Condos – Is Your Single Family Home A Condo?

We all think of condos as multi-unit complexes. Thousands of single family homes across the state are also part of a condominium project. The most common example of this is when a small developer of a parcel decides for whatever reason to “CPR” the property versus splitting the parcels up into individual lots. Under the Condominium Property Regime, all properties created using this type of division are condominiums. The TMK number with a with a CPR suffix are by definition a condo. Both Fannie Mae and Freddie Mac recently announced a condominium specific price adjustment for loans with loan-to-values greater than 75%. If you own or are considering purchasing a condo or a CPR property, you will pay higher fees for your financing.

### New Condo Insurance Requirement Imposed by Fannie Mae

Effective March 1, Fannie Mae will require each individual condo unit to have “walls-in” insurance coverage. If the condominium master policy does not include interior improvements and betterment coverage which covers replacement of interior improvements such as flooring, cabinets, fixtures, appliances; then the borrower must obtain an individual “walls-in” coverage policy commonly know as a HO-6 policy. The coverage amount of the HO-6 policy must be in an amount that is no less than 20% of the unit’s appraised value. For example, if the appraised value is \$500,000, the HO-6 Policy Coverage Amount required is \$100,000. Insurance experts estimate that 90% of all condo AOA’s do not carry this type of insurance, thus making it mandatory for owners in those projects to now acquire this coverage on a refinance or a new condo purchase. Freddie Mac has yet to announce any change to their insurance requirements.

#### Events This Week:

- GDP Lower
- Home Sales Fell
- Confidence Dropped
- Manufacturing Down

#### Events Next Week:

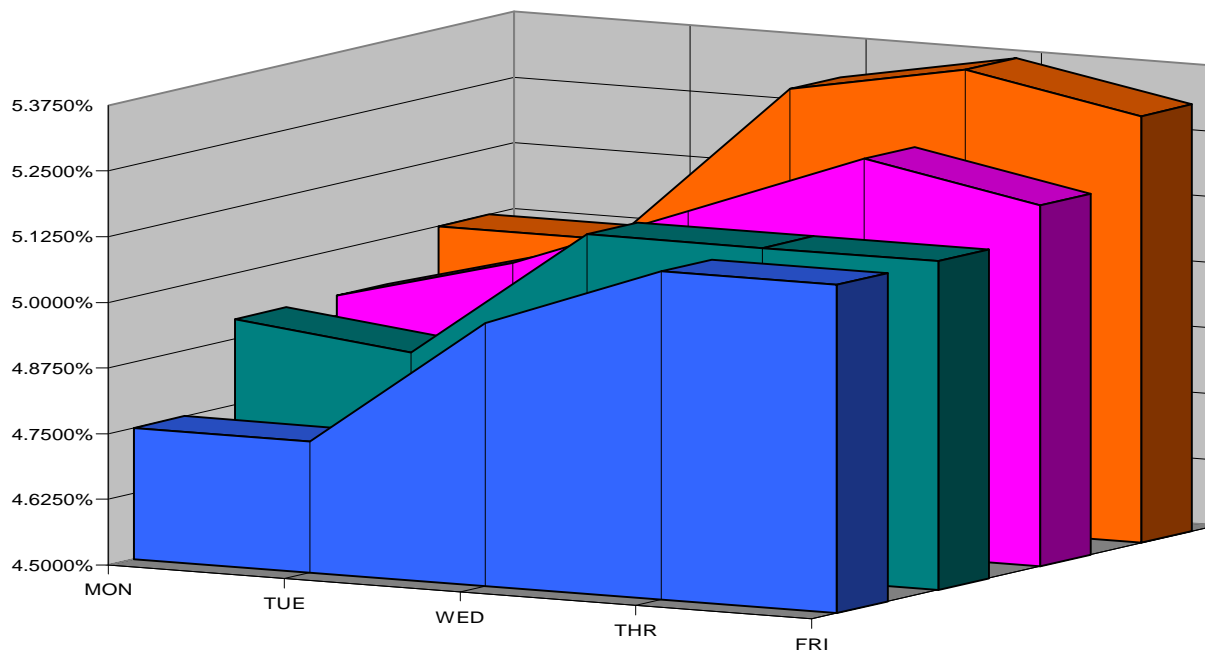
- Mon 3/2  
ISM Manuf.  
Income
- Tues 3/3  
Pending Sales
- Thur 3/5  
Productivity  
Factory Orders
- Fri 3/6  
Employment

#### Also Notable:

- January Existing Home sales fell 5% to the lowest level since 1997
- Continued Jobless Claims rose above five million to a new record high
- The Dow stock index dropped to the lowest level since 1997
- The Fed purchased \$25 billion in agency MBS during the week ending 2/26

### DAILY RATES FROM HAWAII’S TOP LENDERS:

Fannie Mae Base Rate (30-YR-FXD)



Average 30 yr fixed rate:	
Last week:	dn 0.05%
This week:	up 0.14%

Stocks (weekly):		
Dow:	7,062.93	-302.74
NASDAQ:	1,377.84	-63.39

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

#### Week Ahead

The important Employment report will come out on Friday. As usual, this data on the number of jobs, the Unemployment Rate, and wage inflation will be the most highly anticipated economic data of the month. Early estimates are for a loss of over 600K jobs in February. Before the Employment Data, the ISM national manufacturing index and Personal Income will come out on Monday. Pending Home Sales, a leading indicator for the housing market, is scheduled for Tuesday. Productivity will be released on Thursday. Factory Orders, Construction Spending, and the ISM Service index will round out a busy week.

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