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Fed Surprise Lowers Mortgage Rates

Thanks to a Fed announcement (see below) which exceeded all expectations, it was a big week for mortgage markets. Mortgage rates ended the week down significantly, falling near the lows reached in January. The stock market and Treasury market also performed well during the week.

Following Wednesday's meeting, the Fed shocked investors with an aggressive expansion of its mortgage-backed securities (MBS) purchase program. In addition to the previously announced \$500 billion in MBS purchases which began in January, the Fed will buy an additional \$750 billion this year, bringing the total to \$1.25 trillion. To put this in perspective, \$1.25 trillion represents more than half of the estimated total mortgage issuance in 2009. Similar to its November announcement about the initial \$500 billion MBS purchase program, the Fed achieved its desired reaction with an immediate decline in MBS yields. Since mortgage rates are largely based on MBS yields, mortgage rates moved lower as well.

The Fed has identified the stabilization of the financial system and the housing market as key elements of an economic recovery, and lower interest rates will help achieve these goals. Inflation data released during the week contained no reason for inflation to be a concern in the short-term. With yet another increase in government spending, though, investors will be keeping an eye out for signs of higher future inflation.

Another Local Lender Restricts Leasehold Properties

As reported in last week's newsletter, one local lender announced they would no longer accept mortgage applications for properties that are not held in fee. This week another local lender added this restriction as well. In addition, this local lender is also restricting loans for properties located in "Resort Areas", even if they are not leasehold. Resort areas are determined through the appraisal process as determined by the appraiser as to what the predominant area is. No other lender has announced similar restrictions. Why do some lenders have more restrictive policies than others? That is explained in our next section.

How a Lender Funds Your Loan Makes All The Difference

It used to not matter if you used a Mortgage Broker or a Mortgage Banker for financing. Who ever got you the best rate at the lowest cost was your best choice. 40% of all conventional loans and 55% of all FHA loans funded today come from "Non Depository Lenders". These are "Mortgage Bankers" but not banks. These companies in essence borrow the money to fund their loans. In other words, they do not have the money on hand for their loan commitments. Once these loans are completed and recorded at the Bureau of Conveyances, the loan package is sold to an investor. The investor in most cases is NOT Fannie Mae or Freddie Mac, but a large national or regional bank. Who are these "Non Depository Lenders"? They go by varying names, but all FDIC insured banks are not part of this group. Should you then also stay away from Mortgage Brokers? Ask the broker who they broker to. Brokers such as Hawaii Mortgage Company, submit loans to FDIC insured banks. But as cautioned before in previous newsletters, not all brokers are the same either.

Why should you be concerned as to where the money comes from for your loan? Because although you might get a Final Approval on your loan from one of these lenders, and even sign all of your mortgage closing documents, there is no guaranty that your loan will get funded and recorded. The sources these "Non Depository Lenders" use for their funds are called Warehouse Lines. Since the beginning of the current mortgage crisis Non Depository Lenders have been cut off with no warning from their warehouse lines of credit. When this happens, these companies, unable to obtain the funds for their transactions, usually fold pretty quickly. One of the top reasons so many lenders have gone out of business in the last two years has to do with them losing their warehouse line. And yes, all the "approved" loans waiting to close never got funded and never closed.

In the piece above about "lender" restrictions, each lender does follow either the Fannie Mae or Freddie Mac guidelines for conventional conforming loans. But Non Depository Lenders who do not sell their loans directly to either Fannie or Freddie must also follow the guidelines set forth by the investor they will sell your loan to. If that investor doesn't understand leasehold, they'll restrict it. If that investor believes that nobody "lives" in resort areas, they will restrict loans in resort areas.

In today's mortgage finance world it is no longer who has the lowest rate. A borrower must consider who they getting their loan from, where are the funds for your loan coming from, and finally, who is the lender selling your loan to. Hawaii Mortgage Company brokers loans to the nation's largest FDIC insured banks and Hawaii's four FDIC insured banks. This provides our customers the greatest choice of rates and programs from lenders that have the funds to complete your transaction.

Events This Week:

Inflation Low

Housing Starts Up

Industrial Prod. Fell

Manufacturing Mixed

Events Next Week:

Mon 3/23
Existing Home Sales

Wed 3/25
Durable Orders
New Home Sales

Fri 3/27
Income
Sentiment

Also Notable:

- Feb. single-family housing permits rose 11%, the largest monthly increase since 1991
- Bernanke suggested that the recession is likely to end this year
- The mortgage cramdown proposal has stalled in the Senate for now
- The Fed purchased \$20 billion in agency MBS during the week ending 3/18

DAILY RATES FROM HAWAII'S TOP LENDERS:

Average 30 yr fixed rate:	
Last week:	unchanged
This week:	dn 0.30%

investment properties are then added to that rate. Borrowers can also “buy down” these rates by paying additional points.

Each color on the graph represents a different lender.

Week Ahead

Next week will kick off with some monthly housing data. Existing Home Sales will be released on Monday, and New Home Sales will come out on Wednesday. Durable Orders, an important indicator of economic activity, will also be released that day. The final figures for fourth quarter 2008 Gross Domestic Product (GDP) will be revealed on Thursday. Personal Income and Consumer Sentiment are on the schedule for Friday. Large Treasury auctions will also be a factor during the week.

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