

Compliments of  
**Alan Zukerkorn**  
 President  
**Hawaii Mortgage Company Inc.**

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

[alan@hawaiimortgage.net](mailto:alan@hawaiimortgage.net)

**Fed MBS Purchases Remain Strong**

After falling to levels near historical lows, mortgage rates have held fairly steady for several weeks within a range of a quarter percent. Weak economic growth around the world and large Fed purchases of mortgage-backed securities (MBS) have helped keep mortgage rates low.

The trigger for the recent decline in mortgage rates was the announcement following the March 18 Fed meeting that the Fed would increase its purchases of MBS from \$500 billion to \$1.25 trillion by the end of the year. Since then, the Fed has increased its pace of MBS purchases to about \$30 billion per week, which represents over half of all agency MBS issued during an average week. The increased demand associated with the Fed purchases reduced the MBS yield required by investors. Since mortgage rates are determined largely by MBS yields, they followed MBS yields lower.

The Fed's plan was that lower mortgage rates will spur an increase in refinances and home purchases, and the early signs are encouraging. Mortgage activity has increased dramatically over recent weeks. According to the Housing and Urban Development Department (HUD), refinance activity is up 88% and purchase activity is up about 20%. The long-term effects of the MBS purchase program remains to be seen, but the short-term benefit has certainly been substantial for the housing market.

It is important to note that after the initial drop in rates following the Fed announcement, the purchases of MBS by the Fed have not helped keep rates at that level. The pressure is on rates to rise, and the is doing all it can to keep rates artificially low. But as with the analogy of the sinking boat and having a small bucket to bail water, it will only be a matter of time before rates begin to rise again.

**Capacity Issues Still Plague Industry**

With the increase in refinance and purchase activity, lenders are still backlogged with applications. Despite this increase in business, not one lender has increased their staff to accommodate the increase in business. Lenders are reluctant to hire additional personnel wary of another bubble ready to burst. Lenders are averaging 30 calendar days to underwrite a refinance file. Some lenders are giving priority purchase transactions.

The biggest blow to those hopeful of catching rates at their bottom is the new priority system put in place by many lenders. Priority is now being given in underwriting to loan files that have already been locked. As reported in past newsletters, in order to lock your loan without an approval would require the borrower to accept a long lock commitment. Files submitted for underwriting, but are not locked, are being leapfrogged by files that have already been locked. That means that the 30 day underwriting time for unlocked files does not apply. The only way to guaranty your rate, and more important, close within a reasonable time, is for the borrower accept a longer lock commitment. If a borrower is "floating" after submission, there is no real time period as to when they will receive their approval, and thus be able to have a shorter lock commitment.

**Appraisals: Another Backlog In The System**

With the new Home Value Code of Conduct being put in place by lenders, the few chosen appraisers on each list are now getting more appraisal orders than can be completed in a reasonable time. Some lenders are now quoting three weeks for an appraisal. It will take a few months for this new system to have its kinks worked out. Until then, borrowers will again be the ones affected, with no concern or solution offered by lenders. **Who would have imagined just six months ago that a refinance transaction today can take 60 plus days to complete?**

Events This Week:

Jobless Claims Flat

Trade Deficit Lower

Import Prices Fell

Events Next Week:

Tues 4/14

PPI  
Retail Sales

Wed 4/15

CPI  
Industrial Prod.

Thur 4/16

Housing Starts

Fri 4/17

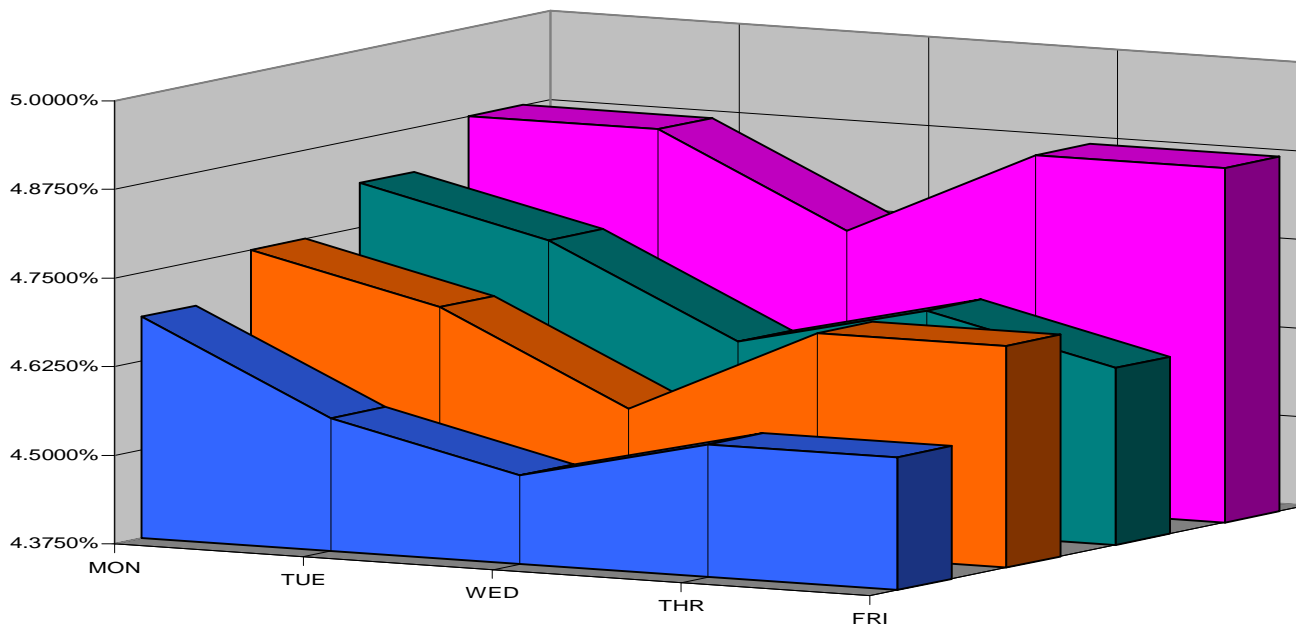
Sentiment

**Also Notable:**

- The February Trade Deficit dropped to a nine-year low
- Continuing Jobless Claims rose to a new record high
- First-time homebuyers accounted for half of all February existing home sales
- Oil prices rose to \$52 per barrel, down from \$145 per barrel in July

**DAILY RATES FROM HAWAII'S TOP LENDERS:**

Fannie Mae Base Rate (30-YR-FXD)



Average 30 yr fixed rate:	
Last week:	up 0.05%
This week:	up 0.01%

Stocks (weekly):		
Dow:	8,000	+10
NASDAQ:	1,640	+40

**Above rates are the Monday-Friday daily base rates. Add-ons for low credit scores, high LTV, cash-out, or 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**

The most significant economic data next week will be the monthly inflation reports. 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 Tuesday. The Consumer Price Index (CPI), the most closely watched monthly inflation report, will come out on Wednesday. CPI looks at the price change for those finished goods which are sold to consumers. In addition, Retail Sales on Tuesday and Industrial Production on Wednesday will provide important indications

of economic activity. Retail Sales account for about 70% of economic activity. Housing Starts and Consumer Sentiment will round out a busy week.

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[alan@hawaiimortgage.net](mailto:alan@hawaiimortgage.net).