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Supply and Downgrade Concerns

While weaker than expected economic data pushed mortgage rates lower last week, concerns about the coming supply of debt needed to pay for government programs moved mortgage rates higher this week, leaving rates nearly unchanged over the past two weeks.

This week, the economic data had little impact, but mortgage rates moved higher for a variety of other reasons. The Treasury announced a huge \$101 billion in auctions next week, meaning additional supply for the market to absorb. Compounding the problem, the UK was placed on the watch list on Thursday for a possible downgrade of the credit rating for its debt, due to its high level of government debt. A lower credit rating implies greater risk, pushing yields higher. Investors are now concerned that the US also may be at risk of a downgrade. Finally, there was hope that the Fed would step up its asset purchases, but the Fed held steady its level of Treasury and mortgage-backed security (MBS) buying this week, disappointing many investors.

The housing data released this week was mixed. While April Housing Starts and Building Permits fell to record lows, the weakness came from multi-family units. Construction of single-family homes actually rose 3% from March, its second consecutive monthly increase. In addition, the National Association of Home Builders (NAHB) May confidence index rose to the highest level since September 2008.

HUD Backs Off Of \$8,000 Credit For Down Payments

Last week, the Secretary of the Department of Housing and Urban Development (HUD) announced that home buyers would be able to use the \$8,000 first-time homebuyer tax credit for down payments on FHA loans through the use of bridge loans. HUD also posted the information on its website (HUD Mortgagee Letter 09-15). Since then, HUD has completely removed the information from its website. While no official explanation has been given, it appears that HUD and the IRS need more time to research the details of the program before moving forward.

Lenders Restricting VA IRRL Loans

Veteran's Administration Interest Rate Reduction Loans (VA IRRL's) are one of the best mortgage deals out there, especially in these times of depressed home values. For those that currently have a VA loan, an IRRL allows for streamlined refinances without an appraisal. In some cases, this would allow refinances of loans significantly over 100% of the appraised value. Due to the potential for these loans to be underwater from day one, new rules have been put into place by many lenders to restrict them. Some lenders no longer offer IRRL loans all together. Others will only offer IRRL loans for loans they are currently servicing. Other lenders claim they are open to doing them, but are being restricted by their investors (those they sell the loans to). These new restrictions are for the investors to order automated value reports on the property PRIOR to funding the loan to ensure the loan is not upside down. If the new loan amount is greater than the automated value, the loan is denied (even after final approval by the lender).

After scouring the country to find lenders that still offer VA IRRL loans without ANY value check, we have found only a couple. If you or someone you know has a VA loan, please forward them this article. The chances of them successfully completing their loan elsewhere could be problematic. Another benefit is that since these types of loans do not require an appraisal, they are closing in half the time as a conventional refinance.

- Events This Week:
- Housing Mixed
 - Leading Indicators Up
 - Jobless Claims Fell
 - Manufacturing Rose

Events Next Week:

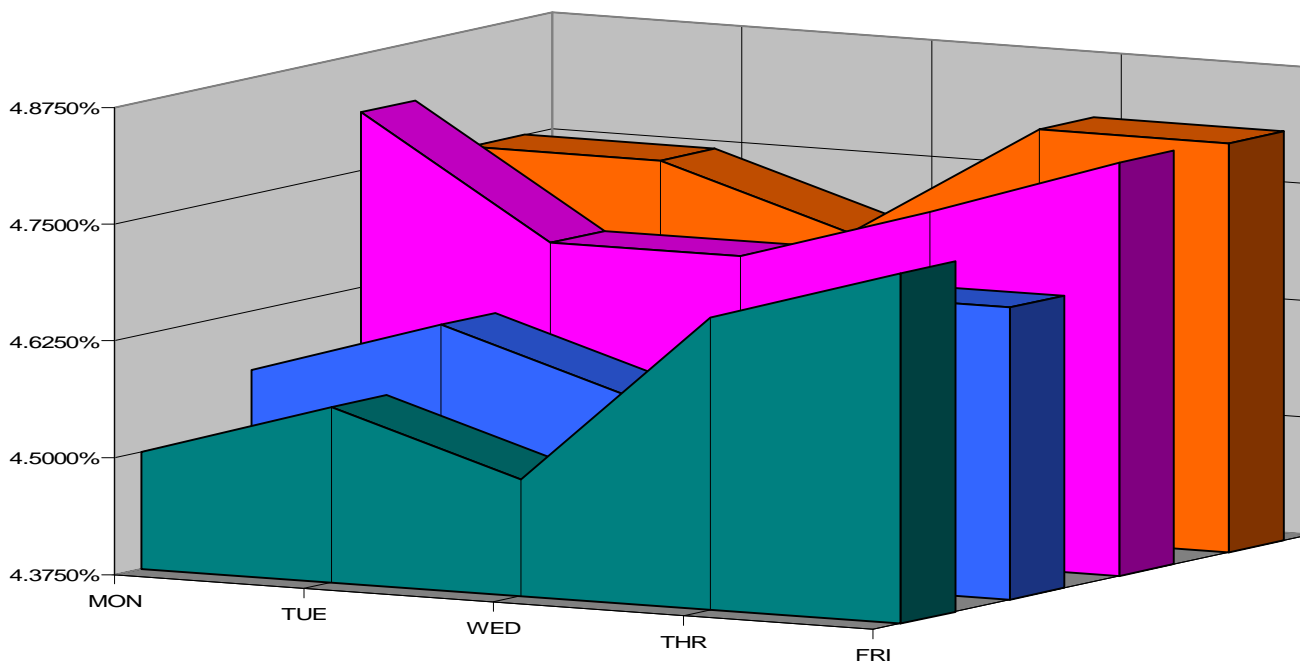
- Tues 5/26
Confidence
2-yr Auction
- Wed 5/27
Existing Home Sales
5-yr Auction
- Thur 5/28
Durable Orders
New Home Sales
7-yr Auction
- Fri 5/29
Chicago PMI
GDP

Also Notable:

- Continuing Jobless Claims rose to another record high
- Fed officials revised lower the forecast for economic growth
- The Fed purchased \$24 billion in agency MBS during the week ending 5/20
- First-time homebuyers accounted for half of all purchases during the first quarter, according to the NAR

DAILY RATES FROM HAWAII'S TOP LENDERS:

Fannie Mae Base Rate (30-YR-FXD)



Average 30 yr fixed rate:	
Last week:	-0.15%
This week:	+0.15%

Stocks (weekly):		
Dow:	8,350	+50
NASDAQ:	1,700	+20

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

Next week, there will be Treasury auctions on Tuesday, Wednesday, and Thursday. Existing Home Sales and New Home Sales will come out on Wednesday and Thursday, respectively. Durable Orders, an important indicator of economic activity, will be released on Thursday. The Chicago PMI national manufacturing index is scheduled for Friday, along with the first revision to first quarter Gross Domestic Product (GDP). Consumer Confidence and Consumer Sentiment will round out the economic reports. Mortgage markets will be closed on Monday for Memorial Day.

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