

Compliments of

Alan Zukerkorn
President

Hawaii Mortgage
Company Inc.

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

alan@hawaiimortgage.net

Unemployment Rate Jumps

Investor sentiment about the economic recovery fell this week, and the stock market declined. Expectations for slower economic growth are favorable for bond markets, including mortgage-backed securities (MBS), and mortgage rates ended the week a little lower.

The important monthly Employment report showed mixed results. Against a consensus forecast for a loss of -225K jobs in August, the economy lost -216K jobs. This was the smallest level of monthly job losses since August 2008 and was far below the monthly average of -691K seen during the first quarter of the year. The biggest surprise in the data came from the Unemployment Rate, which jumped from 9.4% to 9.7%, the highest level since 1983. The unexpected increase was mostly due to previously discouraged workers returning to the labor pool to look for jobs. Average Hourly Earnings, a proxy for wage growth, rose at a moderate 2.6% annual rate.

The future of Fannie Mae and Freddie Mac made the headlines this week when the Mortgage Bankers Association (MBA) released its restructuring proposal. While the MBA suggested the elimination of the two agencies, it would replace them with new entities which would perform many of the same functions, with many of the same people. Its plan would maintain a government guarantee of principal and interest for MBS investors. The two agencies have played a pivotal role in keeping mortgage rates low and in expanding homeownership, and the MBA proposal would retain these benefits. It's very early in the process, and the Obama administration indicated that its proposals for Fannie and Freddie may not be revealed until early next year.

Fannie Tightens Rules On Disclosure Documents

Fannie Mae announced this week several changes relating to documentation from borrowers. Most of the changes dealt with shortening the life span of certain documents before new ones would need to be updated in a borrower's loan file. Items such as how long a credit report or appraisals are now valid for, have been shortened to 90 days.

The biggest change, and one that will impact many borrowers is the requirement that an IRS Form 4506-T (Request for Copies of Tax Return Transcripts) must be signed by the borrower at time of application, and then another at time of closing. In the past borrowers refinancing an investment property as a 2nd home could "cheat the system" if they were not required to provide tax returns as part of their approval, thus hiding the rental income. Lenders will now be required to pull tax transcripts as the file is submitted for underwriting.

Events This Week:

Unemployment Up

Wage Inflation Low

Pending Sales Rose

Manufacturing Up

Events Next Week:

Tues 9/8
3-yr Auction

Wed 9/9
Beige Book
10-yr Auction

Thur 9/10
Trade Balance
30-yr Auction

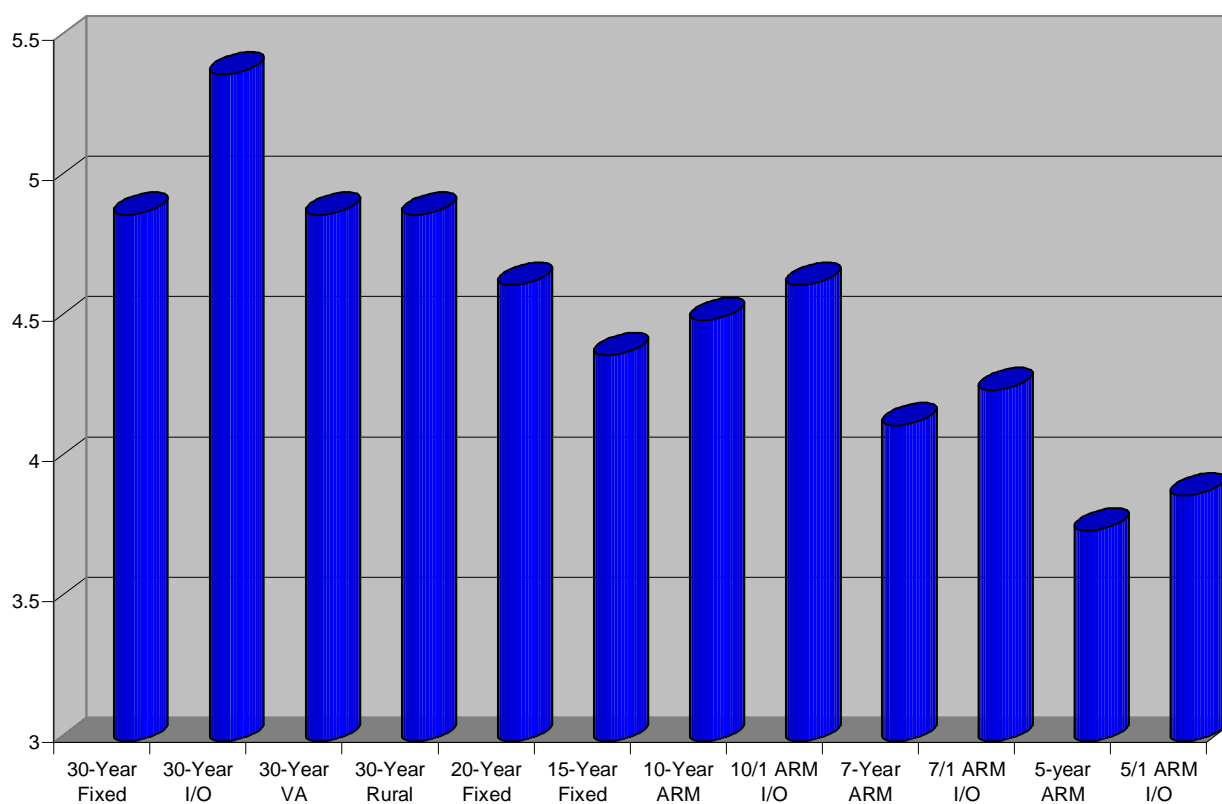
Fri 9/11
Import Prices
Sentiment

Also Notable:

- July Pending Home Sales rose to the highest level since June 2007
- The European Central Bank (ECB) held interest rates steady
- The Treasury announced that it will auction \$70 billion next week
- The Fed purchased \$26 billion in agency MBS during the week ending 9/2

Average 30 yr fixed rate:	
Last week:	-0.02%
This week:	-0.10%

Conforming Rates as of 9/4/09



Stocks (weekly):	
Dow:	9,350 -250
NASDAQ:	2,000 -40

Week Ahead

Treasury auctions may have the greatest impact on mortgage rates next week. There will be \$70 billion in 3-yr, 10-yr, and 30-yr auctions on Tuesday, Wednesday, and Thursday. It will be a light week for economic data. The Fed's Beige Book will be released on Wednesday, and the Trade Balance will come out on Thursday. Import Prices and Consumer Sentiment are scheduled for Friday. Mortgage markets will be closed on Monday for Labor Day.

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