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Auctions and Fed Drive Mortgage Rates

With a light schedule of economic data, Treasury auctions and comments from Fed officials were the primary influences on mortgage rates this week. Strong auction results on Tuesday and Wednesday pushed mortgage rates to the lowest levels seen in months. The final auction on Thursday, however, saw much weaker demand. Reacting to this, along with hints of tighter monetary policy from Fed Chief Bernanke Thursday evening, mortgage rates gave back their improvement and ended the week a little higher.

Investor demand was stronger than average for the 3-yr and 10-yr Treasury auctions, which made the weak results in the 30-yr auction a surprise. Longer-term Treasuries are comparable investments to mortgage-backed securities (MBS), which largely determine mortgage rates, so the results from 10-yr and 30-yr auctions are particularly important. To increase demand, yields must rise. This means that if weak demand for long-term Treasuries continues in future auctions, it would likely push mortgage rates higher as well.

Recently, Fed officials have sent mixed signals about how soon the Fed may need to begin to tighten monetary policy. Wednesday, the Fed's Hoenig said that the Fed should begin raising interest rates "sooner rather than later," and that this action wouldn't end the economic recovery. He explained that the Fed has a long way to go just to return to a neutral monetary stance and that it will take a while for the impact of rate hikes to be felt. Thursday evening, Bernanke held with the stated view that low rates will likely be justified for "an extended period", but he added that the Fed will be ready to remove stimulus as the economy recovers. When the Fed eventually indicates that it's ready to act, mortgage rates will be likely to move higher.

Bottom Seekers Rarely Catch The Low

After years of watching rate cycles and short term up and down periods, one thing always remains constant: Those borrowers who insist on playing the wait-and-see game, waiting for rates to more to their "new lows" always miss it. In today's mortgage world lenders no longer have control over appraisals, no longer have speedy processing departments, and must contend with an alphabet soup of new mortgage regulations. Hawaii lenders must also contend with the Bureau of Conveyances requiring funds be in the Escrow Company's account an extra day earlier than in the past.

Bottom seekers are those that start calling around to various lenders trying to find who has the best 30-Day Lock rate and terms. The ability for a lender to start a new loan from scratch and close it in 30 days can be a crap shoot. Missing that 30 day deadline could be as simple as a holiday popping up (like this coming Monday) or the lender is delayed just a single day in issuing final loan documents, which could move the singing day from a Friday to a Monday. If the transaction is on an island other than Oahu, forget the 30-day period all together, due to a 1-2 day transit time for documents to get from the neighbor island to the Bureau on Oahu. Neighbor island appraisals also take an average of 7 business days longer than Oahu appraisals.

The only realistic option for the bottom seeker who does the morning call-around is a 45-day lock period. An extended lock also means either a higher rate, or more points to buy the rate down, and would negate the "great rate" offered that day.

The best option to ensure you get the best rate available is to **start** the process. Working with a knowledgeable and reputable lender will allow the borrower to take advantage of rates at their lowest by having a fully processed, fully approved loan ready to go. When should you lock in that rate? When the reduced payment makes sense for your specific transaction goals.

Events This Week:

ISM Services Rose

Jobless Claims Fell

Trade Deficit Shrank

Manufacturing Mixed

Events Next Week:

Wed 10/14

Retail Sales

Import Prices

Fed Minutes

Thur 10/15

CPI

Fri 10/16

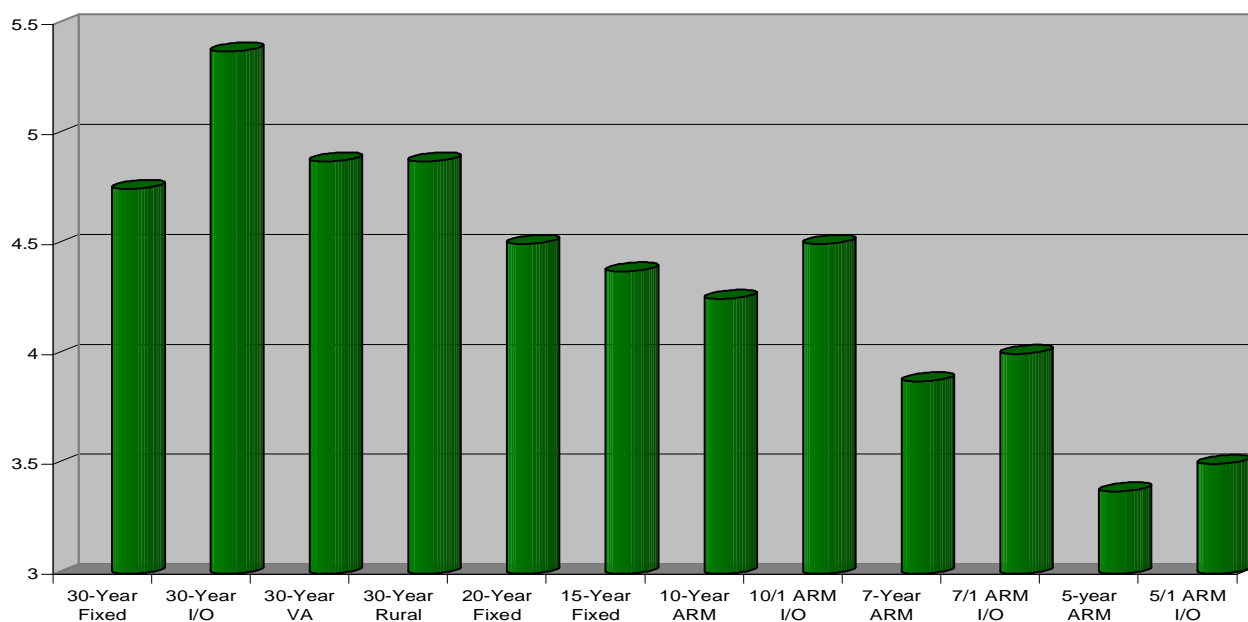
Ind. Production

Sentiment

Also Notable:

- Weekly Jobless Claims fell to the lowest level since early January
- September same-store sales at retail chain stores showed their first increase since August 2008
- The European Central Bank (ECB) made no change in rates, while Australia raised rates
- The Fed purchased \$20.0 billion in agency MBS during the weekly period ending October 7

Conforming Rates as of 10/9/09



Average 30 yr fixed rate:

Last week: -0.20%

This week: +0.05%

Stocks (weekly):

Dow: 9,800 +300

NASDAQ: 2,125 +75

Week Ahead

The most significant economic data next week will be the CPI monthly inflation report. The Consumer Price Index (CPI), the most closely watched monthly inflation report, will come out on Thursday. CPI looks at the price change for those finished goods which are sold to consumers. In addition, Retail Sales will be released on Wednesday. Retail Sales account for about 70% of economic activity. Industrial Production, another important indicator of economic activity, will be released on Friday. The minutes from the September 23 Fed meeting will come out on Wednesday. Import Prices and Consumer Sentiment will round out the schedule. Mortgage markets will be closed on Monday in observance of Columbus Day.

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