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Record Auctions Produce Mixed Results

While daily volatility was high this week, mortgage rates ended just slightly lower than last week. The primary factors influencing mortgage rates were offsetting. The economic growth data released this week was stronger than expected, but inflation remained low. While the first two Treasury auctions produced impressive results, the final one was relatively weak.

Demand was extremely strong for this week's 2-yr and 5-yr Treasury auctions, but it slacked off considerably for the 7-yr securities. When demand is low, higher yields are required to attract investors. In addition, the Treasury is interested in shifting its issuance toward a greater percentage of longer-term securities relative to shorter-term securities to lock in currently low rates. For mortgage markets, though, a move in this direction would add to the supply of competing investments. The Fed is already in the process of winding down its purchases of mortgage-backed securities, removing demand from the market. Higher supply of long-term investments and lower demand would pressure mortgage rates higher.

Government influence on mortgage markets has been substantial. It has pushed mortgage rates to historically low levels and has made credit available where it might not be otherwise. Two important programs, the first-time homebuyer tax credit and the extended conforming loan limits, were set to expire soon. Fortunately, both programs received strong support from lawmakers this week and are likely to be extended.

Rate Lock 101

For the consumer, the interest rate for one's loan is generally the single most important part of the loan scenario. At some point in the process, your rate must be locked in for a set period of time. This time period is known as the "Rate Lock Commitment Period". A rate can be locked for as little as 7 days, and in some cases as long as 120 days. Once a consumer accepts a desired rate at a certain cost (points or no points), their interest rate is then locked for a specific number of days.

What is a rate lock? This question seems redundant after the simple explanation above, but I will try and make it very clear. A rate lock is a commitment for and between the lender AND borrower. Every time I talk to a consumer about locking in their rate I always get asked the same question: "Will the lender lower my rate during the rate lock period if rates drop?" I always reply with a smile and ask the question "Should the lender raise your rate during the rate lock period if rates rise?" A rate lock commitment is not a one way street. Most consumers incorrectly assume that a rate lock commitment is a lock against rates getting any higher than the rate committed to. It is not!

When a consumer has their loan rate locked, it sets off a chain of events. The lender makes a commitment to the investor that will eventually own your loan (the secondary market, i.e. Fannie Mae or Freddie Mac) - committing themselves to deliver a loan that meets underwriting guidelines in a specific period of time at a specific interest. In other words, your rate lock is connected from you all the way to Fannie and Freddie. If the lender fails to deliver the loan to the secondary Market on time, they get penalized a percentage of the loan amount. That is why if your loan does not close within your rate lock period, the lender will charge you an extension fee to cover the cost of late delivery to the investor.

Next week I will dive deeper into the issues of bogus rate locks, who should pay for a lock extension if one is needed, and what happened to the "free float down".

Events This Week:

GDP Increased

Inflation Steady

New Home Sales Down

Manufacturing Rose

Events Next Week:

Mon 11/2
 ISM Manuf
 Pending Sales

Wed 11/4
 Fed Meeting
 Treasury Announce
 ISM Services

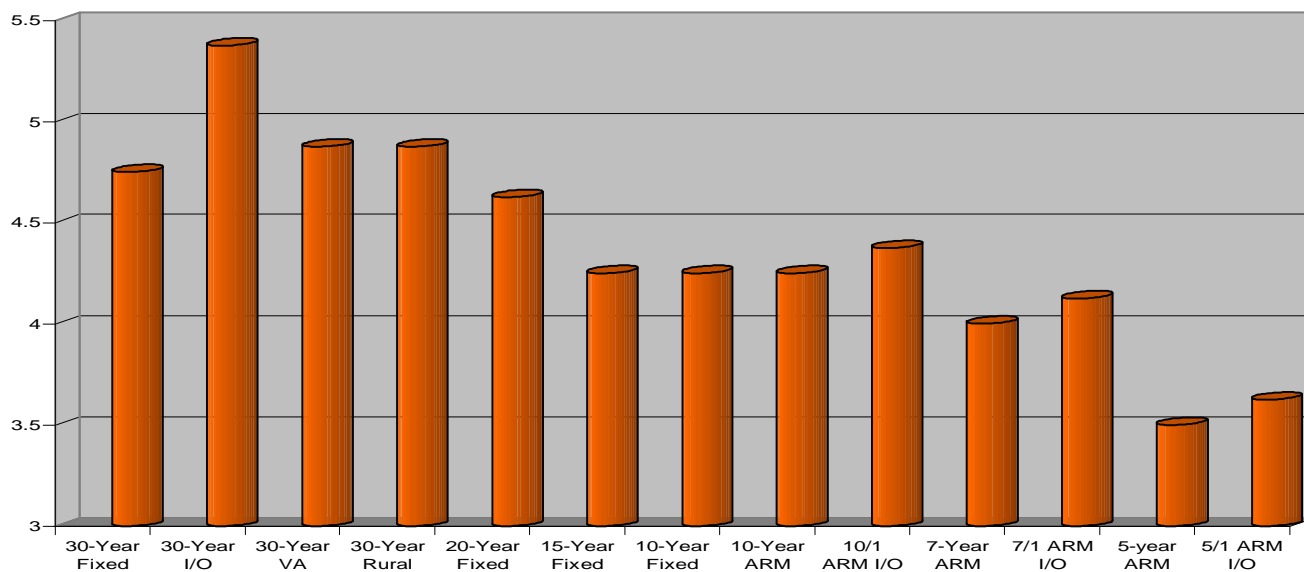
Thur 11/5
 Productivity

Fri 11/6
 Employment

Also Notable:

- Continuing Jobless Claims fell to 5.8 million, the lowest level since March
- The September Core PCE inflation index rose at a tame 1.3% annual rate
- The Chicago PMI manufacturing index rose to the highest level in one year
- The Fed purchased \$18 billion in agency MBS during the week ending 10/28

Conforming Rates as of 10/30/09



Average 30 yr fixed rate:

Last week: +0.01%

This week: -0.05%

Stocks (weekly):

Dow: 9,800 200

NASDAQ: 2,060 100

Week Ahead

The biggest economic event next week will be the Fed meeting on Wednesday. While no change in rates is expected, the Fed may indicate future changes in monetary policy. The important Employment report will come out on Friday. As usual, this data on the number of jobs, the Unemployment Rate, and wage inflation will be the most highly anticipated economic data of the month. Early estimates are for a loss of about 165K jobs in October. In addition, the ISM Manufacturing index and Pending Home Sales will come out on Monday. ISM Services will be released on Wednesday. Productivity, Construction Spending, and Factory Orders will round out the busy schedule. The Treasury will announce the size of upcoming auctions on Wednesday as well.

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