

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

PHONE:  
 (808) 988-6622

FAX:  
 (808) 988-7722

[www.hawaiimortgage.net](http://www.hawaiimortgage.net)

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

## No Change from Fed

Two of the most highly anticipated economic events of the month took place this week, but their impact on mortgage rates was small. The Fed made few changes in its policy statement, and the Employment data was not much of a surprise to most investors. While daily volatility was high this week, mortgage rates ended nearly unchanged.

As expected at its Wednesday meeting, the Fed made no change in the fed funds rate. The statement kept the same language indicating that the Fed will hold rates at extremely low levels for an "extended period." The Fed reported that economic activity has "continued to pick up" and that the housing market has improved. According to the Fed, inflation is likely to remain low due to unused capacity in the economy. Overall, there were no major surprises in the statement, and the Fed provided no firm guidance on the timing of future rate hikes. The statement noted that low inflationary expectations and high unemployment rates reduced the need to raise rates. Investors interpreted this to mean that these will be key indicators to determine when the Fed will begin to raise rates. As such, Friday's Employment data provided no reason to expect a rate hike in the near future. The economy continued to lose jobs in October, and the Unemployment Rate shot up to 10.2% from 9.8% in September, which was the highest level since April 1983.

President Obama signed a bill Friday extending the \$8,000 first-time homebuyer tax credit, making it applicable to contracts entered into by April 30, 2010, and closing by June 30, 2010. The bill also includes a new \$6,500 tax credit for homebuyers who have previously owned a home, if that home was their primary residence for five consecutive years out of the last eight years. Both the \$8,000 credit and the \$6,500 credit have expanded buyer income limits, and the cost of the home being purchased is limited to \$800,000.

## Rate Lock 101 – Part II

Last week I detailed the rate lock process, the roles both the lender and the borrower play, and how the timetable of your loan impacts your rate lock. Today I will focus on bogus rate locks, extensions, and the famous "free float down".

**Bogus Rate Locks** - Consumers should know that when inquiring about rates and points from various lenders, it is very important to find out how long the rate lock is for the loan rate and points you are being quoted. I speak with many consumers every day who often have been "pitched" by a lender with great rates. When inquiring further as to what the consumer was promised, many are quoted a rate and points based on a 15-Day Rate Lock. Since a loan 99% of the time can not close in 15 days, the consumer is being given false information. The most gullible tell me that they will float their rate until they are at that 15 day window, then, lock in their rate. If the consumer floats their loan, what guaranty do they have that the lender they are working with will have the most competitive rates in the future? The answer is not only none, but any lender that specifically quotes a consumer a rate for a lock period shorter than how long it will take them to close the loan and pushing the consumer to float, is most likely looking to take advantage of the consumer. Beware!

**Extensions** - If the unfortunate happens, and your loan is rate locked, but the loan is not completed before the rate lock expires, who should pay the extension fee? There are only two instances in which the consumer should pay for a rate lock extension. The first is if the consumer delayed in getting the lender necessary documentation in a timely basis, and therefore delayed the underwriting of the loan or delayed satisfying underwriting conditions. The second scenario is if the consumer elected against the lender's recommendation to take a shorter rate lock. If you insist on a shorter rate lock in order to get a better rate or less points, ask the lender at the time of the lock what the fees are for an extension. You as the consumer should know going into the loan process what the financial impact to you will be if you are responsible for the extension fee.

**Free Float Down** – In the past, brokers had the ability to submit a loan to more than one lender at a time. To hedge against a rate hike, they would lock the loan with at least one of the lenders. With a maximum rate now in place, they could easily offer the consumer a free "float down" if rates improved, by then locking their loan with one of the lenders the loan was submitted to. Those days are now over. Due to changes in how appraisals are ordered, a consumer's loan is tied to the lender from the beginning. No one can offer the free switcheroo any longer.

I hope this first, in a series of multi-part articles, helps you to better understand mechanics debunks the lies of the mortgage industry. If there is a topic or question you would like discussed, please let me know. As always, back issues of the newsletter are available at our website [www.hawaiimortgage.net](http://www.hawaiimortgage.net).

### Events This Week:

Employment Fell

Productivity Higher

Pending Sales Rose

Manufacturing Mixed

### Events Next Week:

Mon 11/9  
 3-yr Auction

Tues 11/10  
 10-yr Auction

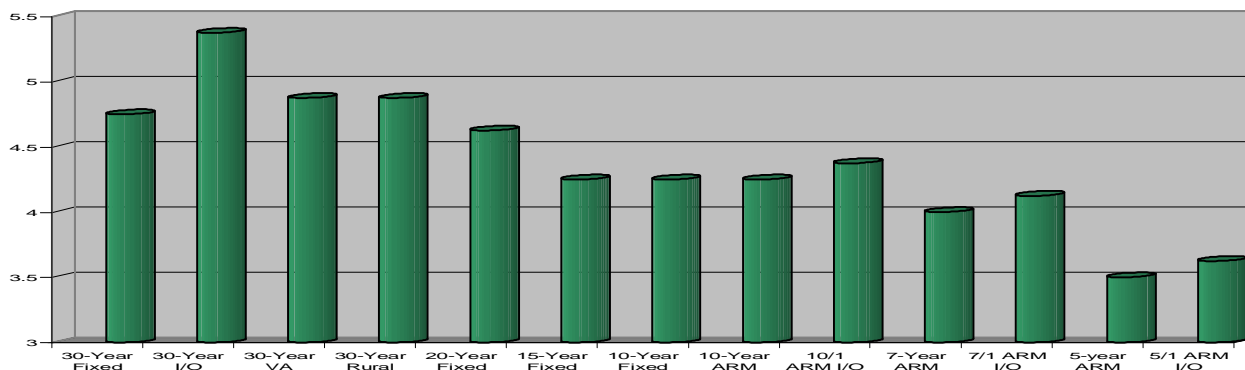
Thur 11/12  
 30-yr Auction

Fri 11/13  
 Trade Balance  
 Import Prices  
 Sentiment

### Also Notable:

- Third quarter Productivity increased 9.5%, the fastest pace of growth in six years
- September Pending Home Sales jumped 6% to the highest level since December 2006
- The Treasury will auction a record \$81 billion in 3-yr, 10-yr, and 30-yr Treasuries next week
- The Fed purchased \$16 billion in agency MBS during the week ending 11/4

Conforming Rates as of 11/06/09



Average 30 yr fixed rate:

Last week: -0.05%

This week: -0.02%

Stocks (weekly):

Dow: 10,000 +200

NASDAQ: 2,100 +40

## Week Ahead

Next week will be a very light week for economic reports. The Trade Balance, Import Prices, and Consumer Sentiment will be released on Friday. There will be Treasury auctions on Monday, Tuesday, and Thursday. The Bond Market Association has recommended that mortgage markets close on Wednesday for Veterans Day.

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