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Bernanke Addresses Falling Dollar

A highly anticipated speech on Monday by Fed Chief Bernanke on the economic outlook revealed no change in the Fed's stance on short-term monetary policy. There were also few surprises in the economic data released during the week. The monthly inflation readings continued to show that inflation is not a cause for concern in the short-term. As a result, mortgage rates barely moved during the week, remaining at historically low levels.

The decline in the value of the dollar has received a great deal of attention lately. While Fed officials rarely discuss the value of the dollar, Bernanke assured investors that the Fed is closely watching exchange rates. However, he then reminded investors that the Fed's dual mandate is to promote full employment and to keep prices stable. According to Bernanke, the value of the dollar is just one of many factors affecting inflation, and the Fed is not concerned by the movement in the dollar so far. With a fragile economy and high unemployment rate, he suggested that the Fed intends to keep the fed funds rate at very low levels. Tightening monetary policy to strengthen the dollar would hurt the economic recovery and slow job creation. After the speech, the value of the dollar fell to the lowest level since August 2008.

If foreign investors expect the value of the dollar to continue to fall, it may pose a risk for mortgage rates in the future. Foreign investors historically have been major buyers of mortgage-backed securities (MBS). When the dollar falls, the value of US assets to foreign investors in their own currency declines, making US investments less rewarding. With the Fed scaling back its MBS purchases over the next few months, a drop in foreign demand would further pressure yields higher to fill the void left by the Fed.

Property Issues – Condos

Last week I addressed property issues primarily for Single Family Homes. This week we look at how issues with condos, could decide if you get financing or not.

Leasehold. There are still lots of rumors out there that financing is no longer available for leasehold properties. That is not true. The basic rules still apply. The lease has to extend 5 years past the length of the loan applied for. If you want a 30-Year Fixed loan, there has to be a minimum of 35 years remaining on the lease.

Owner-Occupancy. This is where the major changes to condo financing have taken place in the past couple of years. The simple guideline on occupancy is if the owner-occupancy is below 50%, you will not get a Fannie or Freddie loan. There are still portfolio products available for these scenarios. If your equity position is less than 20% and mortgage insurance is required, the owner-occupancy jumps up to 70%. Keep in mind that the formula used by most property management companies to determine owner-occupancy as disclosed on the condominium disclosure form is flawed. The rule for owner-occupancy is owner-occupants AND 2nd homes. Most property management companies determine owner-occupancy by tabulating the number of units in which the maintenance fee statements are sent to an address other than the subject property. They will consider all of these units investor properties. The best way to determine the number of investor properties is with the Resident Manager. They know exactly how many renters live in the complex.

Insurance. It is now a Fannie Mae requirement that condo owners carry contents insurance (an H-06 policy) in addition to the coverage carried by the association. If there were a fire, the association's insurance will not cover appliances, cabinets, etc. This coverage is a good idea regardless of any lender's requirements.

Events This Week:

Inflation Low

Retail Sales Rose

Housing Starts Down

Manufacturing Mixed

Events Next Week:

Mon 11/23
Existing Sales
2-yr Auction

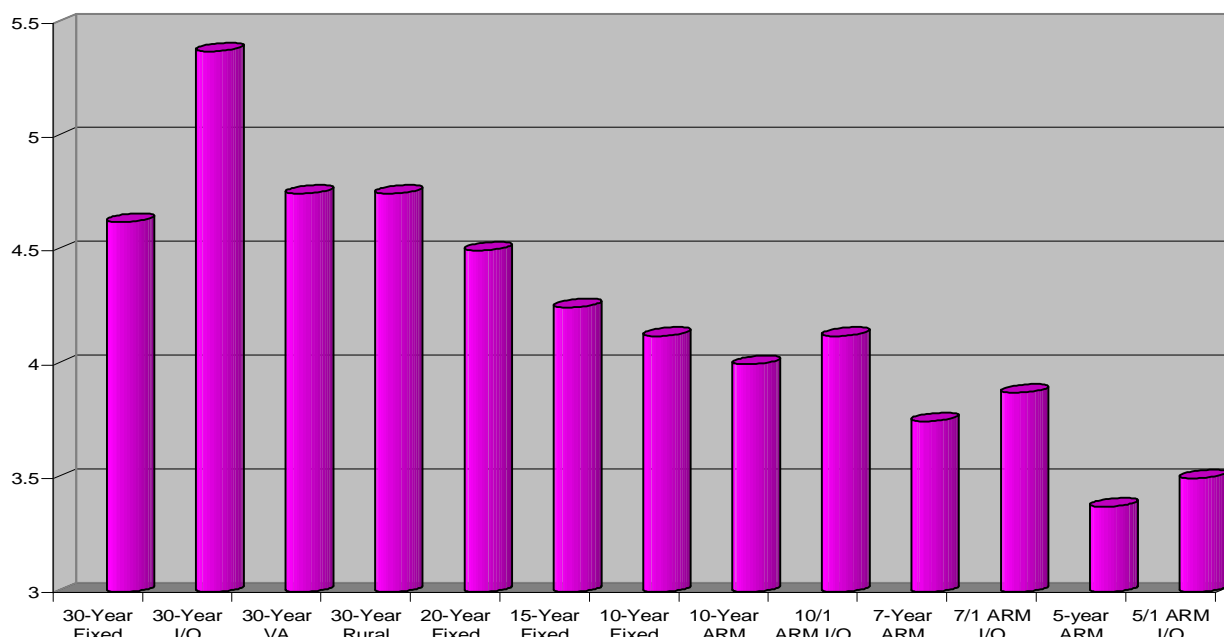
Tues 11/24
GDP
FOMC Minutes
5-yr Auction

Wed 11/25
Durable Orders
Core PCE
7-yr Auction

Also Notable:

- October Core CPI inflation was a tame 1.7% higher than one year ago
- October Housing Starts dropped 11% from September
- The Treasury will auction a record \$118 billion next week
- The Fed purchased \$16 billion in agency MBS during the week ending 11/18

Conforming Rates as of 11/20/09



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

Stocks (weekly):	
Dow:	10,300 -25
NASDAQ:	2,140 -20

Week Ahead

A wide range of economic data will be released during the holiday-shortened week ahead. Existing Home Sales will come out on Monday. GDP, Consumer Confidence, and the FOMC Minutes from the November 4th Fed meeting will be released on Tuesday. Durable Orders, Personal Income, Core PCE inflation, New Home Sales, and Consumer Sentiment will all be packed in on Wednesday. In addition, there will be Treasury auctions on Monday, Tuesday, and Wednesday. Mortgage markets will be closed on Thursday for Thanksgiving. Expect volatility on Friday, as most traders will be gone, making for a 4-day weekend.

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