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Mortgage Rates Rise at Year End

The final two weeks of December have not been kind to mortgage rates. Stronger than expected economic data, comments from Fed officials, and a stock market rally all were negative for mortgage markets, and mortgage rates moved higher during the period.

Heading into December, mortgage rates were close to record low levels, but a combination of factors caused them to increase throughout the month. First, an improving economic outlook, which is good news for the country, is negative for mortgage markets because it generally leads to higher inflation. Second, the government already will need to issue an enormous amount of debt to pay for its spending, and it now looks more likely that additional expenditures are on the way for job creation and health care bills. Higher yields are required to attract investors to purchase the extra debt, pushing up yields for competing investments such as mortgage-backed securities (MBS). Finally, the Fed is winding down its \$1.25 trillion MBS purchase program, reducing demand for mortgage investments.

With mortgage rates that are still historically low, high levels of affordability, and the homebuyer tax credit, the housing sector outlook for 2010 is for improvement from 2009. According to projections from the Mortgage Bankers Association (MBA), sales of existing homes are expected to increase by more than 10% next year. In addition, housing starts will rebound sharply from extremely low levels, and median home prices will move a little higher. Forecasts from the National Association of Realtors (NAR) and from Fannie Mae are generally consistent with the outlook from the MBA.

Slow 1st Quarter May Lead to Lower Rates

With the recent rise in rates, many consumers feel they have missed their last opportunity to obtain a sub 5% mortgage. The good news is that historically, January and February are the slowest months in our industry. With the laws of supply and demand, when demand eases, sellers must reduce the price of their products and services in order to attract buyers. The same is true for the mortgage industry. Although the bond market has had a tough December, trading volume in December is always light. With so few actual traders working and volume of trades low, it was easy for the market to move too much one way or the other. Today marked the first positive day in the bond market in two weeks. If you are still on the fence about obtaining a loan, get moving on it now. With all the new regulations going in place (see below) it will take even longer to get your transaction completed.

Sweeping Changes In Disclosure Take Effect January 1st

For honest lenders in the industry, the changes that take effect mean no more than additional forms and some sharpening of the pencil in quoting escrow and title fees. For others, the new rules, known as Regulation X, will put a stop to inaccuracy and bogus fees when providing a potential borrower with a Good Faith Estimate.

January 1st marks the implementation of HUD's new rules covering initial disclosure to potential borrowers. When a consumer shops for a mortgage loan and are provided a Good Faith Estimate, the lender or broker will be held to honor the exact amount of the fees quoted on the GFE. If through the loan process certain fees go up, the lender or broker MUST eat those increases and not pass them along to the consumer. The consumer will also get a new standardized multi-paged GFE that will allow them to compare offers with what the government considers "greater ease". Over the course of the past few years, I have reviewed hundreds of GFE's for consumers where fees were "low balled" just to show less overall closing costs to hopefully snag another trusting consumer. In the end, those fees were inaccurate. The consumer had no recourse than to either pay them, or cancel the transaction and lose and fees already paid. As a company that has always provided accurate and honest Good Faith Estimates, we welcome these important changes.

Under the new rules, the only information a borrower needs to give to a potential lender is: Name, Social Security Number, Address, Income, Assets Amount, and Property Value. A broker or lender can not require you the consumer to provide any documentation in order to receive a GFE. While this might sound like a good idea, but this reliance on borrower provided information, which is often times wrong, will lead to a revised GFE later on. The intent of the new rules was for the consumer to provide basic information as a basis to shop for a loan. Once the consumer has chosen a lender and all required documentation is provided, adjustments to loan fees (if warranted) will be made.

Some fees are allowed to change. If you the consumer chooses to use a different Escrow Company, Home Inspection Firm, or other 3rd party service provider, the fees detailed in the GFE are allowed to change. Changes in rate or points can not change from those disclosed during specific time periods as clearly disclosed on the new form. Fees can be changed if material aspects of the loan profile change, once the income and asset information is received. Fees can also change in the case where the appraised value differs from the value provided by the consumer. Since points are a percentage of size of the loan, if the loan amount changes, the cost of the points will change, but the actual number of points must stay the same.

The new GFE also not only shows the rate and points, but details the lock period for that specific rate and fees. The form also details specific critical dates such as how long the rate quote is good for, how long the quote for 3rd party fees are good for, and the minimum number of days you can wait before closing in order to lock in a shorter rate lock period. It is important to note that if the consumer waits past the disclosed dates of estimated fees to either initiate the loan, or lock the loan, the lender or broker is not held liable for any changes in fees. If this situation occurs, the broker or lender must re-disclose a new GFE to the consumer with updated fees and dates.

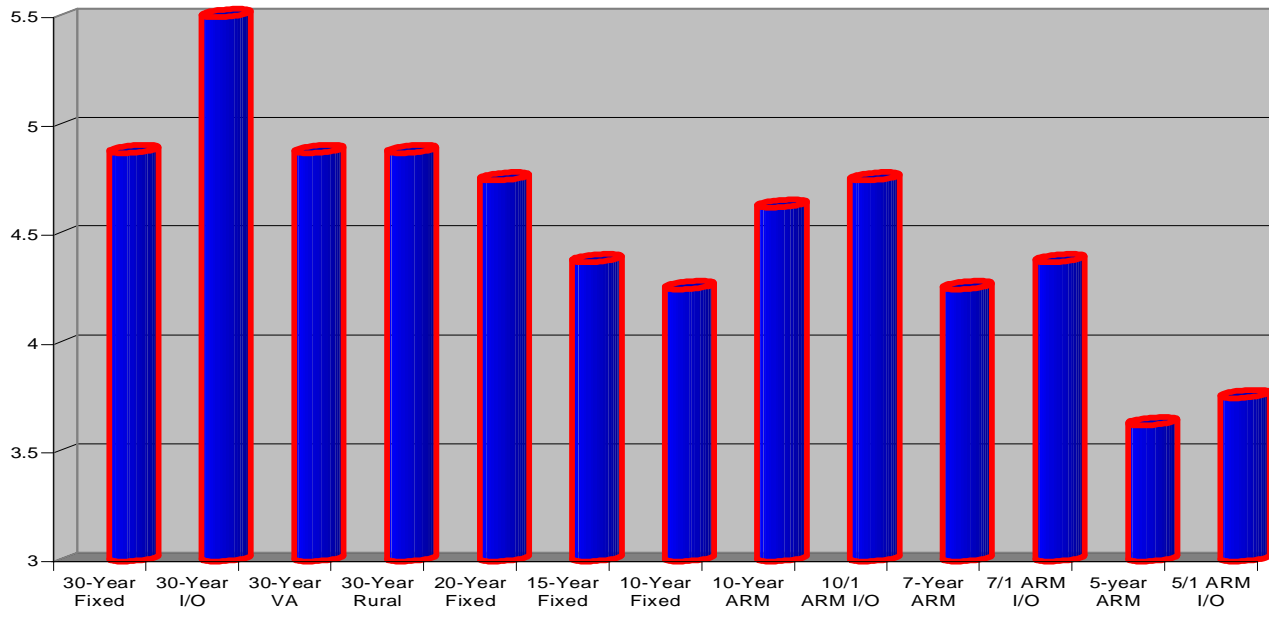
Each lender has interpreted the rules for Regulation X based on their understanding of HUD's intent. The above is meant as a general guide. I attended a two hour seminar this morning with a major Hawaii bank, and they could not answer every question asked. The simple way to look at the changes, are that HUD has given the consumer an opportunity to shop without really committing to a lender nor provide them personal information other than allowing for a credit report to be pulled.

Also Notable:

- November Existing Home Sales jumped to the highest level since February 2007
- Weekly Jobless Claims declined to the lowest level since September 2008
- Geithner said that it's reasonable to expect "positive job growth" starting in spring
- The Fed purchased \$15 billion in agency MBS during the week ending 12/23

Average 30 yr fixed rate:	
Last week:	-0.02%
This week:	+0.30%

Conforming Rates as of 12/30/09



Week Ahead

The biggest economic event next week will be the important Employment report 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. Before the employment data, the ISM manufacturing index will be released on Monday. Pending Home Sales, a leading indicator for the housing market, will come out on Tuesday. ISM Services and the minutes from the December 16 Fed meeting will be released on Wednesday. Construction Spending and Factory Orders will round out the schedule. In addition, the Treasury will announce the size of upcoming auctions on Thursday.

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