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Mortgage Rates Improve, Stocks Fall

While the economic data released this week had little impact, mortgage rates were heavily influenced by two big stories. One was an announcement that China will take steps to slow its economic growth and the other was President Obama's proposed new restrictions on the activities of financial institutions. Both measures are expected to lead to slower economic growth in the US, which hurt the stock market but helped fixed income markets. As a result, mortgage rates ended a little lower.

During the week, China released a report showing that its Gross Domestic Product (GDP) grew at an 8.7% pace in 2009. Rapid growth generally leads to higher inflation. In an effort to slow its economy and prevent inflation, China announced that it is going to curb bank lending. China currently has the third largest economy and is responsible for a significant percentage of global economic growth, so the effects of a slowdown in China will be felt around the world. In the US, President Obama proposed to limit the size and activities of large banks to reduce the risks to the financial system as a whole. If passed by Congress, this too would lead to slower growth for many large US financial services firms. The potential for slower economic growth and the resulting reduction in inflationary pressures was favorable for mortgage rates.

FHA & HUD Announce Changes

To build capital and reduce risk, the FHA announced that it will raise insurance rates and tighten credit score requirements. The major changes include increasing upfront premiums from 1.75% to 2.25%, reducing the maximum seller contribution from 6% to 3%, and increasing the level of FICO scores from 500 to 580 below which a down payment of 10% is required. At this point, the expected timing of the upfront premium increase will be in the spring, and the other changes will take place over the summer.

HUD has announced a temporary waiver of its regulations providing that a loan will not be eligible for FHA insurance if the contract of sale for the purchase of the property is executed within 90 days of the prior acquisition by the seller, and the seller does not come under any of the exemptions that apply to the 90-day rule. This waiver will take effect with case numbers assigned on and after February 1, 2010, and is limited to sales meeting the following conditions:

1. All transactions must be arms-length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction. Some ways that the lender can ensure that there is no inappropriate collusion is to assess and determine the following:
 - a. The seller holds title to the property;
 - b. LLC's, corporations, or trusts that are serving as sellers were established and operated in accordance with applicable state and Federal law;
 - c. No pattern of previous flipping activity exists for the subject property, as evidenced by multiple title transfers within a 12-month time frame;
 - d. The property was marketed openly and fairly, via MLS, auction, For Sale by Owner, or developer marketing. A sales contract that refers to an "assignment of contract of sale" may be a red flag.

2. When the sales price of the property is 20% or more over and above the seller's acquisition cost, the waiver will apply only if the lender:
 - a. Justifies the increase in value by obtaining documentation which verifies the seller has completed sufficient legitimate renovation, repair, and rehab work to substantiate the increase in value; or, in cases where no such work is performed, the appraiser provides appropriate commentary regarding the increase in value since the prior title transfer; AND
 - b. Obtains a property inspection and provides it to the purchaser prior to closing. The lender may charge the borrower for this inspection.

3. When the sales price of the property is 50% or more over and above the seller's acquisition cost, the waiver will apply only if a second appraisal is obtained

Events This Week:

Inflation Low
 Jobless Claims Up
 Housing Starts Fell
 Manufacturing Mixed

Events Next Week:

Mon 1/25
 Existing Sales

Wed 1/27
 Fed Meeting
 New Home Sales

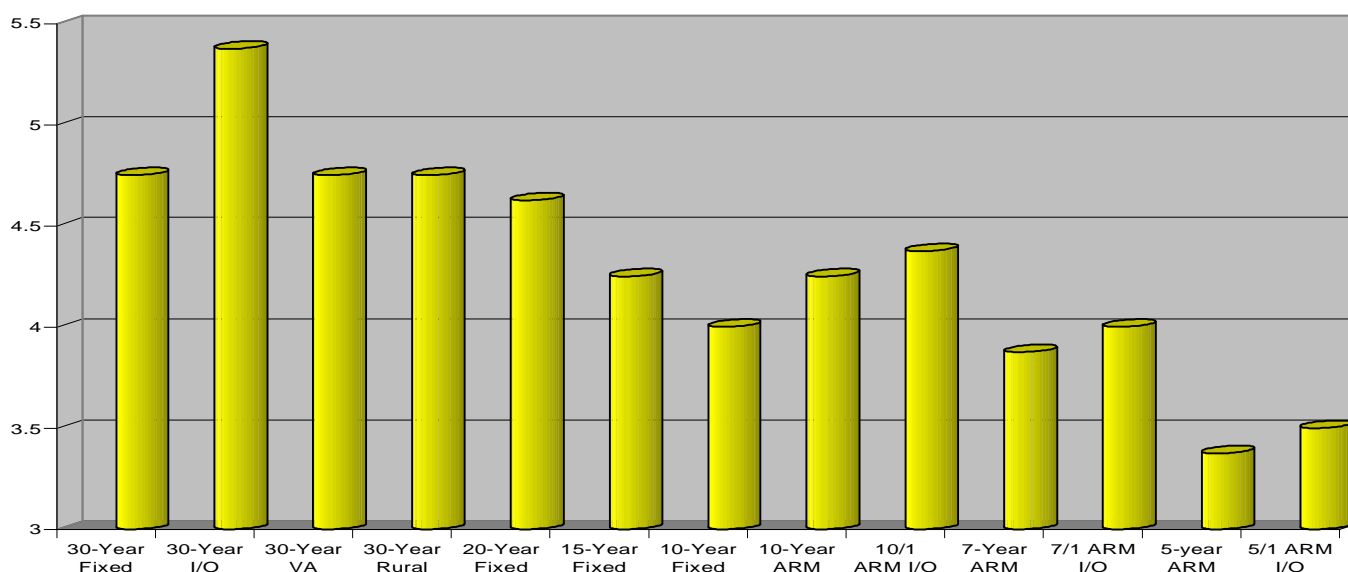
Thur 1/28
 Durable Orders

Fri 1/29
 GDP
 Chicago PMI

Also Notable:

- December Core PPI inflation increased just 0.9% from one year ago
- The Senate is expected to vote on Bernanke's reappointment next week
- The Treasury will auction \$118 billion in 2-yr, 5-yr, and 7-yr securities next week
- The Fed purchased \$12 billion in agency MBS during the week ending 1/20

Conforming Rates as of 1/22/2010



Average 30 yr fixed rate:

Last week: -0.10%
 This week: -0.05%

Stocks (weekly):

Dow:	10,400	-20
NASDAQ:	2,250	-50

Week Ahead

The biggest story next week will be Wednesday's Fed meeting. No change in rates is expected, but any surprises in the Fed statement could move markets. The Economic Calendar will also be packed next week. Existing Home Sales will come out on Monday, and New Home Sales will be released on Wednesday. Durable Orders, an important indicator of economic growth, will be released on Thursday. Fourth quarter Gross Domestic Product (GDP), the broadest measure of economic activity, will come out on Friday, along with the Chicago PMI manufacturing index. In addition, there will be Treasury auctions on Tuesday, Wednesday, and Thursday.

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