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Fed To End MBS Purchase Program

There was major economic news on many fronts this week, with mixed results for mortgage markets. The Fed statement essentially followed the expected script, demand was strong for the Treasury auctions, and much of the economic data released during the week was stronger than expected. The net effect was a small increase in mortgage rates during the week.

As expected, the Fed made no change in the fed funds rate on Wednesday. The biggest surprise was that the Fed's Hoenig dissented from the decision, as he believes that economic conditions have improved enough that the Fed should begin to tighten policy. The Fed's outlook for the economy was slightly more positive than in the prior statement. The statement repeated that the mortgage-backed security (MBS) purchase program will be concluded by the end of March. Some investors were disappointed that the Fed didn't show more support for a possible expansion of the MBS purchase program, and mortgage rates rose after the news.

There is a wide range of expectations in the investment community about the impact of the end of the MBS purchase program on mortgage rates. The Fed has been purchasing roughly 75% of new MBS issuance, and a decline in demand from one source normally leads to higher yields to attract other buyers. One argument, however, is that the end of the program has been expected for quite a while, so mortgage rates already reflect the news, and there could be little reaction over coming months. Other analysts predict an increase in mortgage rates of as much as one percent. The Fed itself expects a small increase in mortgage rates as a result of the end of the program. For those that have not capitalized on the lower rates, your time is about up. If you have not started your mortgage financing yet, you could end up losing out on your last chance at rates below 5%.

Your Rights as a Consumer

There has been a lot of confusion about the new 2010 GFE and what a consumer is "promised" over the phone. One of the main reasons HUD made such a drastic change to how the lending industry works is due to lenders "low-balling" rates, providing inaccurate closing costs, and hard-selling uneducated consumers into loans they would normally not consider. All this done solely to put more money in the pockets of greedy mortgage lenders.

On January 1st, the new 2010 GFE was mandated by the Federal Government. It gives the consumer an honest picture of the type of loan being offered, the fees associated with the loan, and their total closing costs. Although I personally have many complaints as to how the new form provides the information, and the difficulty most consumers have in reading it, it has resulted in one important change: If a consumer is provided one by a lender, they have received an honest rate quote.

Consumers must change the way they shop for a loan. Calling around and getting verbal rate quotes is no longer (and has never been) a good way of picking a lender. There is no way the government can regulate what a dishonest lender says to a consumer. That is why the written and binding 2010 GFE is so important when considering a lender. After you receive the 2010 GFE you as the consumer have specific rights. The lender is bound to the fees, and most importantly, what they will be compensated for your loan. Even if you complete your "shopping" several days later and rates have changed, the origination fees disclosed by the lender on your original quote are fixed, and not subject to change. The GFE is also provided to the closing agent, and any fees that do not match, are not allowed to be added at closing. There are a few exceptions, but in general, what you are promised at the beginning, must be the same at the end.

Remember these simple rules: Always ask for a 2010 GFE. When shopping, give each lender the same loan scenario. Make sure the rate they quote you is for the same loan commitment (lock) period. As a service to consumers, if you are uncertain of how to read the new form, please give me a call for a honest hassle-free review.

Events This Week:

GDP Higher

Durables Rose

Home Sales Fell

Manufacturing Up

Events Next Week:

Mon 2/1
 ISM Manuf
 Personal Income

Tues 2/2
 Pending Sales

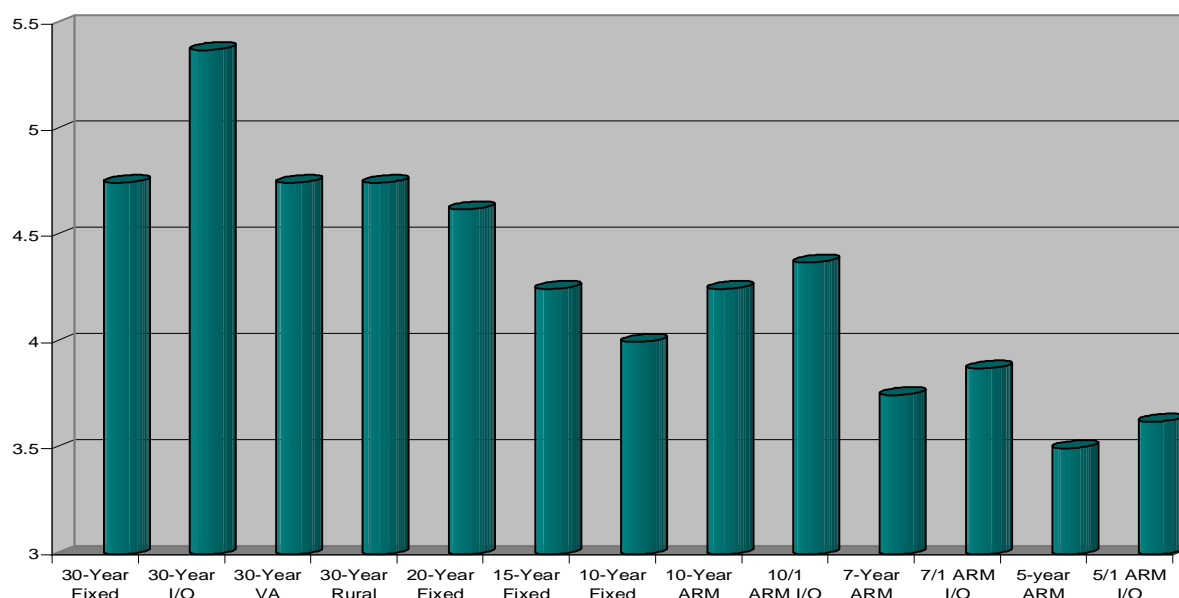
Wed 2/3
 ISM Services

Fri 2/5
 Employment

Also Notable:

- Fourth quarter Gross Domestic Product (GDP) increased 5.7%
- For the year, existing home sales increased 5% from 2008
- Bernanke was reconfirmed as Fed Chairman by the Senate
- The Fed purchased \$12 billion in agency MBS during the week ending 1/27

Conforming Rates as of 1/29/2010



Average 30 yr fixed rate:	
Last week:	-0.05%
This week:	+0.05%

Stocks (weekly):		
Dow:	10,150	-250
NASDAQ:	2,175	-75

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. Early estimates are for an increase of about 50K jobs in January. Before the employment data, Personal Income and 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 will be released on Wednesday. Productivity, Construction Spending and Factory Orders will round out the schedule. In addition, the Treasury will announce the size of upcoming auctions on Wednesday.

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