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Fed Comments Push Mortgage Rates Higher

While investors began the week watching for fresh information about Greece and China, the Fed stole the spotlight on Wednesday with news that was unfavorable for mortgage markets, and mortgage rates ended the week moderately higher.

The Fed currently has significant influence on mortgage rates. Over the last year, the Fed pushed mortgage rates lower by purchasing over \$1 trillion in mortgage-backed securities (MBS). Wednesday, the Fed's Plosser suggested that the Fed should begin selling those MBS "sooner rather than later." Later that day, the Fed released the detailed minutes from the January 27 Fed meeting. The minutes revealed that "several" Fed officials favored starting the sale of the Fed's MBS portfolio "in the near future." Investors were not expecting that Fed MBS sales would begin any time soon. Quite simply, adding to the supply of MBS being sold means that yields would need to move higher to attract buyers. Since mortgage rates are largely determined by MBS yields, mortgage rates rose after the news.

Thursday, the Fed announced an increase in the discount rate, the emergency rate at which banks borrow money from the Fed. The Fed made clear that this in no way reflected a change in broader monetary policy or its economic outlook. This was simply a return to more normal levels for one Fed tool now that the financial crisis has eased. As a result, there was very little impact on mortgage rates. According to Fed officials, a move to begin to tighten overall monetary policy, which almost certainly would cause a significant reaction, is still expected to be at least several months away. The inflation data released this week continued to show low levels of current inflation, providing little pressure for the Fed to rush to take action.

How To Pick The Best Loan Offer

For many weeks now, I have stressed the importance of only considering loan offers from lenders that provide you the new HUD mandated 2010 GFE. Now that you have received more than one, how do you pick the best offer? The easiest way is to ask all lenders you are considering to, send you the GFE at the same interest rate.

If you are considering offers at the same rate, the new 2010 GFE makes it really easy to compare. First, review page one of the GFE. Make sure the terms of each loan offer are identical in regards to a fixed rate loan or an ARM, the term of the loan is the same (30-Year, 15-Year, etc.) if there is a pre-payment penalty or not, and if the lender requires an impound account be established to pay your taxes and insurance. If all of these offers are the same, all you need to do to find the best offer is to look at the last number at the bottom of page one: A + B Total Estimated Settlement Charges. Which ever lender has the lowest number showing, has the best deal for you.

Events This Week:

Inflation Low

Housing Starts Rose

Ind. Production Higher

Manufacturing Up

Events Next Week:

Tues 2/23
 2-yr Auction

Wed 2/24
 New Home Sales
 5-yr Auction

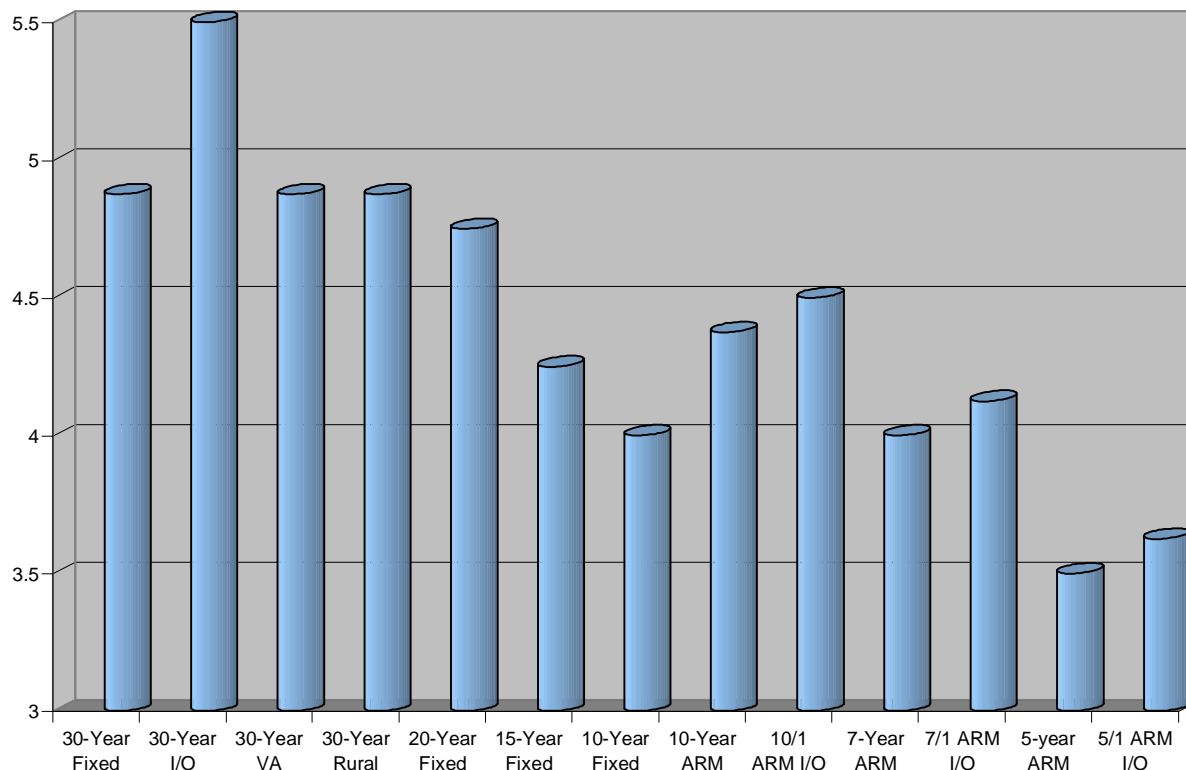
Thur 2/25
 Durable Orders
 7-yr Auction

Fri 2/26
 Existing Sales
 Chicago PMI
 GDP

Also Notable:

- January Core CPI inflation increased at a tame 1.6% annual rate
- January Housing Starts increased 3% to the highest level in six months
- The Treasury will auction \$118 billion in 2-yr, 5-yr, and 7-yr securities next week
- The Fed purchased \$11 billion in agency MBS, with about \$55 billion more to go

Conforming Rates as of 2/19/2010



Average 30 yr fixed rate:	
Last week:	+0.02%
This week:	+0.10%

Stocks (weekly):	
Dow:	10,400 +300
NASDAQ:	2,250 +75

Week Ahead

Next week, New Home Sales will be released on Wednesday. Durable Orders, an important indicator of economic activity, will come out on Thursday. Friday will be the biggest day for economic data with Existing Home Sales, Preliminary GDP, and the Chicago PMI manufacturing index. Consumer Sentiment and Consumer Confidence will round out the schedule. In addition, there will be Treasury auctions on Tuesday, Wednesday, and Thursday. Finally, Fed Chief Bernanke is scheduled to speak on Wednesday.

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