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Mortgage Rates Rise on Weak Auctions

A combination of factors was negative for mortgage markets this week, and mortgage rates ended higher. Large budget deficits and economic troubles in smaller European Union nations made bonds less attractive to global investors. In addition, stock market gains sent the Dow to an 18-month high, which pulled funds out of fixed income investments. Finally, with just one week remaining for the Fed's MBS purchase program, comments from Fed Chief Bernanke about potential future MBS sales added to the pressure in mortgage markets.

For months, investors have been concerned that the enormous supply of debt needed to fund US government spending would force yields on US Treasury securities to rise to attract purchasers. This is what took place this week. Demand was surprisingly weak at all of this week's record Treasury auctions, especially from foreign investors, and yields were pushed higher. Since mortgage-backed securities (MBS) compete for investors with Treasuries, MBS yields rose as well, pushing mortgage rates higher.

In a speech on Thursday, Fed Chief Bernanke added to the volatility in mortgage markets with his comments about the possible timing of future sales of MBS from the Fed's portfolio. To support the economy, the Fed has purchased almost \$1.25 trillion of MBS since the start of 2009. The Fed has made clear from the start that it was a temporary measure and that it would eventually sell its MBS holdings when the economy was healthy enough. Earlier this month, Bernanke stated that he did not expect the Fed to sell assets "in the near term". On Thursday, however, his language changed a little. While Bernanke assured investors that MBS sales would be gradual and that they would only take place if the economy were strong enough to handle it, he opened the door for the start of Fed MBS sales at an earlier date than previously anticipated.

Health Care Reform Impacts Home Sales

What? How can these two things be connected? One of the provisions of the new law is a 3.8% surcharge tax on capital gains. When you sell a property held for more than one year, the profit made on that sale is treated as capital gains income.

When you sell your primary residence you have two options to avoid capital gains taxes. The first is to purchase a replacement property for the same or higher price than the one you are selling. The other option allowed by the tax rules is a one-time lifetime exemption of \$250,000 per person, or \$500,000 per married couple on gains from the sale of your primary residence.

If you have already used your lifetime exemption, choose not to use it, or your gains are more than your exemption, you will be hit with higher taxes. The tax rate until this week was 15%. With the stroke of the President's pen this week, The Healthcare Reform Law increased that rate by more than 25% to the new rate of 18.8%.

Here's an example to illustrate the impact: John and Mary Wilson bought their Hawaii Kai home in the early 70's for \$52,000. Now retired, they are moving to Las Vegas because with their fixed income, they can no longer afford to live in Hawaii. Their home sells for \$812,000. Their capital gains are \$760,000. Even with their one-time lifetime \$500,000 exemption, they will still have to pay taxes on \$260,000. Under the old tax rate, they would owe \$39,000 in taxes. As of this week, their tax bill increased almost \$10,000 to \$48,880. Want an even scarier thought? Congress must vote soon to keep the 2001 Bush tax cuts in place or they will return to the higher rates before 2001. Prior to 2001 the capital gains tax rate was 45%. Yes, the 3.8% Healthcare tax surcharge would be added on top of that for a total tax rate of 48.8%. If the tax cuts are not extended, the tax bill for the Wilson's would jump to \$126,880.

Whatever your flavor of politics, everyone in the real estate and mortgage industries all agree that additional taxes levied on a segment of our economy that has still not recovered is not a good thing. This newsletter has never taken a political stance, but at some point everyone has to say enough! A majority of Americans did not favor this legislation, and currently 62% of us want the law repealed. Become informed about the positions those you are voting for take. Shed party lines in November vote for what is best for our economy and country.

Past Newsletters & Rates

If you ever have the need to read a past issue of the newsletter, or would like to see what rates were like last week, month, or year, each issue of this newsletter and the rate table below are available at our website www.hawaiimortgage.net

Events This Week:

 Durable Orders Rose

 Sentiment Higher

 Home Sales Down

 Manufacturing Mixed

Events Next Week:

 Mon 3/29
 Personal Income

Wed 3/31
 Chicago PMI

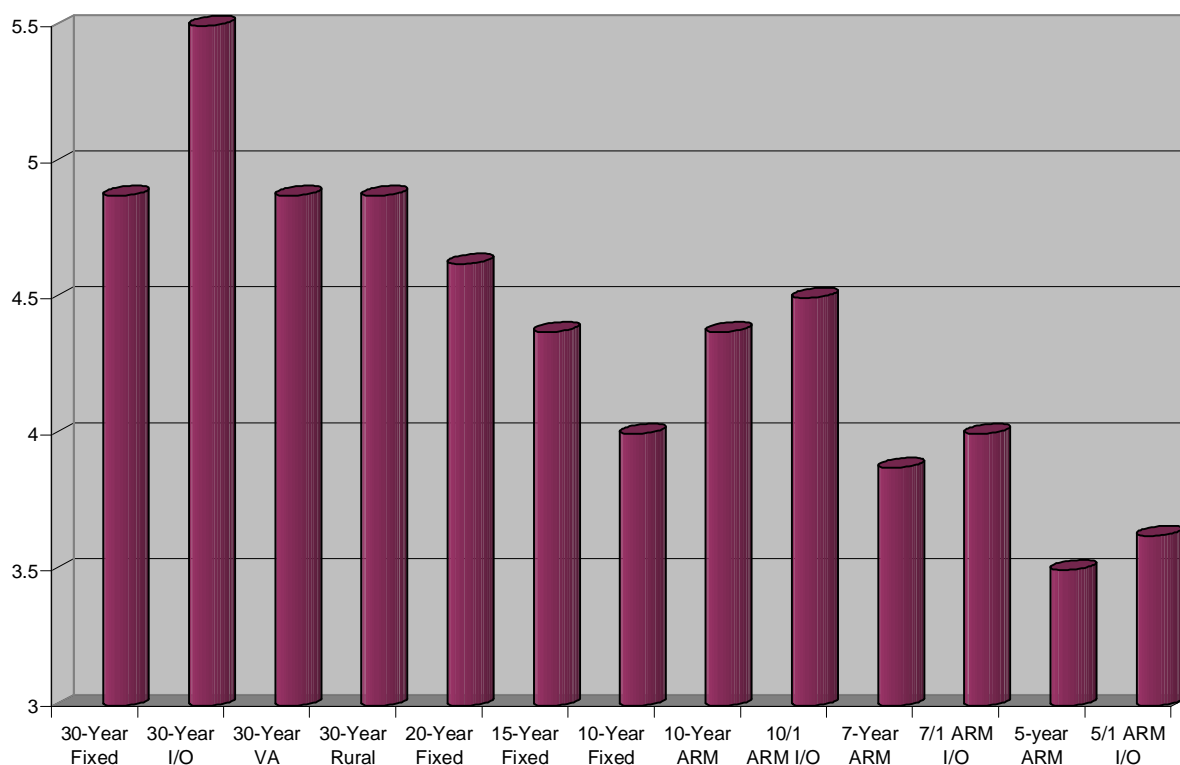
Thur 4/1
 ISM Manuf.

Fri 4/2
 Employment

Also Notable:

- February Existing Home Sales fell 1%, while New Home Sales dropped 2%
- An agreement was reached for the EU and the IMF to bail out Greece if necessary
- The Dow stock index rose to a new high for the year
- The Fed purchased \$8 billion in agency MBS, with about \$7 billion more to go

Conforming Rates as of 3/26/2010



Average 30 yr fixed rate:	
Last week:	-0.02%
This week:	+0.15%

Stocks (weekly):	
Dow:	10,900 +150
NASDAQ:	2,400 +25

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 200K jobs in March. Before the employment data, Personal Income will be released on Monday. The Chicago PMI will come out on Wednesday, and the ISM manufacturing index will be released on Thursday. Consumer Confidence, 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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