This was an incredibly informative conversation with Brenda Mitchell from Bank of Hawaii about lending opportunities and forbearance. Brenda is the Vice President and Executive Loan Officer at Bank of Hawaii, and she has been one of the top three lenders in Hawaii for the past 10+ years. She has funded nearly $2 billion in loans during her career and specializes in jumbo loans and self-employed borrowers.

What are the trends you're seeing right now in the mortgage business?

The mortgage industry has been unbelievably busy lately. Although the world around us is really being affected by COVID-19, the rates themselves have really dropped because of it, because of the economic uncertainty, because of the completely downslide of the economy in general. So our rates have been really low, which is a really nice thing for people who have the opportunity to refinance their mortgages and bring their rates down and it's also wonderful for anyone looking to purchase a new home. It gives them a lot more buying power. Especially for a 30-year loan, when you can do that at 2.875%, it's an unbelievable opportunity for people.

How are rates for 5-year or 7-year mortgages comparing right now to the 30-year fixed?

They're definitely lower. But because we're in such a great low interest rate environment, that's a kind of product that I would recommend to a client who is either doing an investment loan or who feels strongly that they won't need it for more than 5-10 years. The longest ARM that we have goes out 10 years so it's a 30-year loan but fixed for only the first 10 years. The rates on that are as low as 2.625% today; you can get even lower on the 5- and 7-year loans. So they're a very amazing opportunity for people but because the 30-year loans are based off a different index, those are falling more rapidly than the adjustable rate mortgages are so you're seeing that variance between the products not be quite as severe as you may normally expect to find them. So really depending on what the overall plan is for a property, if someone's buying their absolute dream home, live in it forever type of home, a 30-year product just cannot be beat. Or if they're planning to keep it forever and rent it down the road, rather than having to refinance it down the road, having initially secured an owner occupant rate on that is priceless.

A question that we get often when someone owns a property is that they want to know when to consider refinancing. If they're getting this certain rate but this new rate is available today, when should someone consider refinancing an existing mortgage?

I don't think there's one blanket answer to that. I know that a lot of people come to me and say "you know I heard that you need a 1% chance in your rate in order for it to make sense" and it depends on a lot of variables. One, it depends on most importantly if you are simply refinancing just the balance or if you have other debts that you could consolidate at that point and bring them in. Even if they're credit card debts, car loans, student loans, things that may have a higher monthly payment because they're amortized over a shorter period. Spreading them over a 30-year period, especially in a tough economic environment such as this, gives people a lot of freedom and frees up a lot of cash flow. It's a great opportunity for them to use their equity. The other really important variable is how large your loan is. The larger the loan is, the bigger variance there will be in your payment. So each case I think is case by case, if you're within a ¼%, 3/8%, sometimes even ½% on a loan that's in the conforming space, around $765,000 or less, it's probably not going to be as worthwhile, but if you have a $1 million or $1.5 million loan, even lowering that 3/8% in rate can be considerable. A lot of people also took Home Equity Loans out on their properties to either purchase it initially and now they have more equity or to do home improvements. Those rates,

although they have great teaser rates in the beginning, escalate really quickly and to have a balance on there when you could pull it in, even if it's at the same rate or very similar, that's a priceless opportunity that should be taken advantage of for sure.

So what are home equity rates running right now? Just a home equity line of credit not a mortgage.

We have a couple options. We have an interest only option and for those the longest we go out on a teaser rate is 4 years and that's at 3.25% and that's an interest only payment. Bank of Hawaii also have an unbelievably wonderful product that's called our Fixed Rate Loan Option and you can fix that in for 25 years. Whatever balance you draw at closing you can fix at 25 years at 3.75% right now. Those have no points, no nothing.

So why would somebody consider than versus a mortgage today at 2.85% for instance? In what situation would someone go with a home equity loan?

If it is a smaller amount, and their mortgage balance on their first is larger, I would say that might be a reason but other than that I really think that the first mortgage would make sense, especially even if you're going to fix it in at the 25-years, fixing something over 25 years is again going to be a slightly higher payment than if you were to amortize it over 30 years, over a great period of time at that lower rate.

So what I've seen during my 30 years in the business is that we've had all these different trends, you know ARMs, home equities, but it seems like the real trend now is going with the fixed 30-year mortgages, it seems the thing to do.

I think because rates are so historically low, I've been in this industry, well I'm not going to say how long, but I've been through a few cycles and I've seen rates go up and down and this is by far the lowest that I've seen them, possibly because of worldwide economic peril. I think that for anybody, you never know what the future will bring. If you have an opportunity to grab a rate that would historically only have been available possibly under the adjustable rates, it's a great opportunity and hard to pass up. But every case is different and that's why it's important that you speak with someone who knows what all the options are for you, who can guide you through here's what it would look like in these different scenarios, here are the risks, here are the rewards, and I think that that's where you really need to have someone on the mortgage side who an expert at their craft and who can really help guide you through that and make that best decision and list to what your needs are.

Absolutely, and what I've been seeing is you get some people who have great credit, great income, but of course the cost of homes in Hawaii is a lot higher. A nice home in East Oahu is probably at least $1.8 million so sometimes they don't have that 25%, 30% down payment. So what are some of the creative things that you've seen that people have done to help them through that process of being able to buy when maybe they don't have that 25% down right now?

Mortgage insurance is always an option but I think what is challenging is that mortgage insurance is very expensive so you may not have the down payment, it may because you haven't had enough expendable income in order to save that amount so the qualification becomes very tough. The best thing I've seen in those cases is, other than getting gifts from family members to help them purchase, and the mortgage insurance is hopefully people may have another piece of property that

may they're not ready to sell yet and they're trying to move up into a nicer home for themselves, something more suitable, we can always do an equity line against that property to grab the equity from that home without having to move out and sell first in order to put that towards the other loan.

So you just mentioned something on gift funds, can you share that with everybody, how a gift fund would help a young couple trying to get into their home right now?

I can tell you from personal experience it's a wonderful thing! It's unbelievably expensive here, buying a million dollar home and trying to have $200,000, who just has $200,000 laying around for their first home? Very few people. So gift loans are something that are allowable on owner occupant purchases from immediate family. So they gift you the funds and we just consider it as an asset of yours. They have to sign a gift letter that says that they don't require or expect any repayment for it and that it is a gift. That's something they need to consider with their tax advisors as well. I am not an accountant so I have to put that out there. But I think that there are also ways of being creative and looking for options to try to mitigate those tax consequences for gifting funds. But it's an amazing opportunity that allows people to actually get into a slightly higher price point. For first time home buyers, if they don't have that, another option without mortgage insurance is for Bank of Hawaii, which I know is one of the very few who offer this, we will do a stacked first and second mortgage in order to get you to 90% loan to value. Rather than on that million dollar home, coming in at $200,000, you're at $100,000 and that would not require mortgage insurance and it doesn't cause an extra payment, it doesn't raise the price of your monthly payment, and that's a nice, flexible option. And again, unlike a traditional equity line where that's wonderful until your 3 or 4-year teaser runs out, we have a 25-year fixed product, you never have to worry about that escalating on you. It's very secure, just as secure as your first mortgage interest rate and that's an amazing opportunity for people.

I'm so grateful that the banking industry has so much creativity right now given how tough times are. There's always a silver lining during this COVID period – what's something that's beneficial that we can get out of this. Why don't we touch on forbearance? I've be asked about forbearance so you might want to explain what that is and what's going on with that, and what are some considerations people have to think of with forbearance.

There has been a lot of discussion and a lot of confusion around forbearance. So what mortgage forbearance is, is a way of deferring your mortgage payments if you are having difficulties making those payments. So you basically make no payments at all. You call your lender, you let them know that you've experienced a hardship, that you'd like your mortgage payments basically paused, which is great. So what they will do is they will not charge you – some of 3 months, some are 6 months depending on the lender. At the end of that period, you will have options on how to make those payments. The misconception is that you just are forgiven those mortgage payments. That is absolutely not the case. It is also not added to the end of your loan. What happens is you will have a payment plan at the end of that forbearance period in which you have to make your payments back. So you still make the exact same amount of payments over the life of your loan, you stay with the same amortization of your original loan, it's just you defer those payments to a later date and it is good. A lot of people, I think, have done it not understanding that there are some consequences to it. From a lender's perspective, if you are going on forbearance that means that you are unable to currently make your mortgage payments. It is absolutely going to affect your ability to borrow. If you went on forbearance and you have been continuing to make your mortgage payments even

though you have the option, then that's okay. But if you have not made your payments, there isn't going to be any lender who wants to come back and say "well you haven't been able to make your payments, but we want to extend you some more credit." It is going to affect your ability to borrow. It goes on your credit report, although in the beginning there was a lot of misinformation saying it wouldn't reflect on your credit report. It does not reflect as a late payment, so it shouldn't affect your actual credit score, although I've heard mixed things about that. But it will be a notation on there that says forbearance. If we pull your credit, you come in for a refinance and we see that you are on forbearance, we are going to ask you to prove that you have made all your payments in a timely fashion. If you have not, then we may not lend to you. There's a good possibility that you will be ineligible for lending because if you are not able to make your payments, extending more credit to you just doesn't seem like a prudent thing to do for you or for us.

So what you're saying is it's one of maybe the last things you should consider, especially in times when you want to refinance with the new rates.

Yes, it is something you should only do if you truly need it. If you are truly experiencing a hardship, absolutely, it's a wonderful tool, please take advantage of it. But some people are using it I think as a kind of safety net, just keeping those payments in case something happens and while that's a viable option, it does have consequences that you should be aware of before you decide if that's right for you. But if you are having difficulty, you've lost your job, you don't have the same income, you can't make the payments, don't hesitate to do it. Just understand that you will have to show that paid back in full or that you had made three payments after coming out of forbearance before you would be eligible for new financing.

Well Brenda, I just want to thank you for this. Fabulous information!