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Inflation Falls

Despite weak economic data and sizable Fed purchases of mortgage-backed securities (MBS), mortgage rates actually rose a little during the week. After falling by more than 1.0% since late November, mortgage rates have resisted any move lower over the last couple of weeks, even with extremely bond-friendly economic news. Still, mortgage rates remain near the lowest levels seen since the 1950s.

The tame inflation reports and weak economic growth data released during the week should have been favorable for mortgage markets. The December Consumer Price Index (CPI) declined -0.7% from November, mostly due to lower energy prices. The core CPI rate, which excludes food and energy, rose a scant 1.8% from one year ago. The December Producer Price Index (PPI) report contained similar results, and inflation concerns are low right now. Meanwhile, the economic growth indicators were much weaker than expected. Both Industrial Production and Retail Sales dropped significantly in December. In 2008, Retail Sales showed their first annual decline since the data began being tracked. Until the economy shows solid signs of improvement, we should see little inflationary pressure on mortgage rates.

Refi Boom – Capacity Issues Meet Optimism

When rates dropped to historic lows recently, diligent loan officers took applications and locked client's loans. The flood of requests to lenders caused capacity issues that were highlighted in last week's newsletter. Lenders are now discovering that all this anticipated business may not come to be. Declining values in many areas of the state have caused hopeful owners to find out they now must take some form of mortgage insurance in order to get the low rate they were promised. In many cases this added cost offsets any savings to the homeowner, thus making the refinance impractical. Also, stricter underwriting guidelines have eliminated many from refinancing as well. With lenders now forced to deal with forward commitments not being met, they have instituted new rules be put in place. Most will not accept a rate lock request without a Fannie Mae or Freddie Mac approval. Even with an agency approval, they will still require the borrower to accept a 45 or 60 day rate lock. Others will not accept a lock request unless the fully processed loan file including appraisal and title work is delivered first. The result is higher rates and difficulties for borrowers who truly qualify to obtain the best rates available.

Events This Week:

- Inflation Down
- Retail Sales Lower
- Industrial Prod. Fell
- Manufacturing Mixed

Events Next Week:

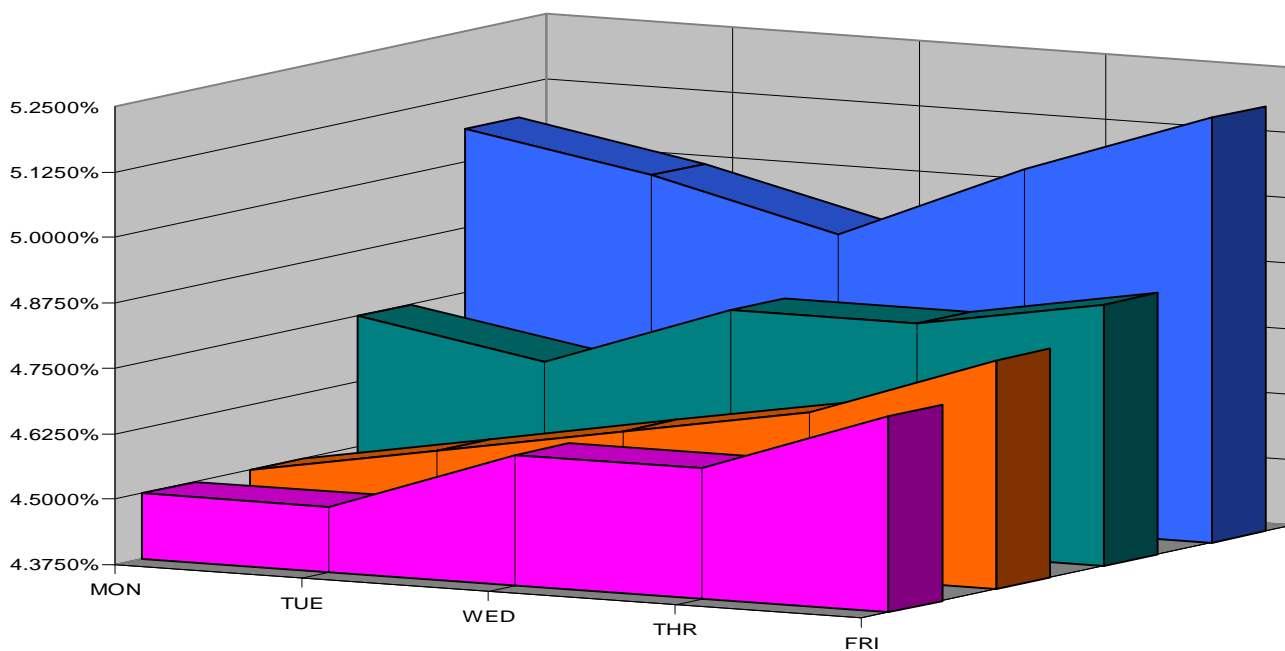
- Thur 1/22
- Housing Starts
- Jobless Claims

Also Notable:

- The annual CPI increase of 0.1% in 2008 was the lowest inflation rate since 1954
- The Fed purchased \$23.4 billion in MBS during the weekly period ending Jan. 14
- As expected, the European Central Bank (ECB) cut rates by 50 basis points
- Oil prices fell to \$35 per barrel, down from \$145 per barrel in July

Daily Rates from Hawaii's Top Lender's

Fannie Mae Base Rate (30-YR-FXD)



Average 30 yr fixed rate:	
Last week:	-0.09%
This week:	+0.01%

Stocks (weekly):		
Dow:	8,281.2	-317.9
	2	6
NASDAQ	1,529.3	-42.26
:	3	

Please note that the rates above on based on 30-day pricing (historically used for comparison). Please read the story above in regards to how long a lock lenders are now requiring.

Week Ahead

Next week will be an extremely light week for economic data. Only Housing Starts and Jobless Claims appear on the economic calendar, both on Thursday. The Inauguration on Tuesday may have an impact. Mortgage markets will be closed on Monday in observance of Martin Luther King day.

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