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Low Inflation Supports Mortgage Rates

Mortgage rates were steady for yet another week, holding near historical lows. The primary reason for their recent narrow range is that the outlook for two of the most significant influences on mortgage rates, inflation and demand, has hardly changed since the middle of March. Short-term inflation concerns are staying extremely low, and regular Fed purchases of mortgage-backed securities (MBS), although down a little this week, remain sizable.

The two big monthly inflation reports, the Consumer Price Index (CPI) and the Producer Price Index (PPI), were released during the week and caused little concern about inflation in the near-term. March CPI dropped slightly from February, compared to the consensus forecast for a small increase, and fell at a -0.4% annual rate. This was the first annual decline in CPI since 1955. Core CPI, which excludes the food and energy components, rose at a modest 1.8% annual rate. PPI showed tame results as well. Overall, inflation is low, and the current economic weakness provides little pressure for it to increase.

However, when investors begin to believe that the economy is gaining strength, inflation expectations may move higher. Statements from the Fed released during the week were generally more optimistic than the consensus view about how soon this will take place. The Fed's Beige Book provided a degree of hope that the economy may be near its bottom, meaning that conditions may not get much worse. Fed Chief Bernanke stated that there have been "tentative signs" that the economic decline may be slowing, while the Fed's Lockhart forecasted that the recession will end during the second half of 2009. When solid signs emerge to support a turnaround, it's likely that the inflation outlook will increase, which may push mortgage rates higher.

Super Conforming Loans Now Included In Refinance Program

For those that were able to take advantage of the small window last year when the government temporarily allowed conforming loans up to \$793,750, help is on the way. Until now these borrowers were stuck and unable to refinance because their conforming loan limit was eliminated on December 31st of 2008. It was just announced this week that for those borrowers who have these higher loan limit loans, you can now refinance at today's lower interest rates, just like the Making Home Affordable program in place for conforming loans with maximum loan amounts of \$625,500. The same rules apply to these Super Jumbo Loans: No Cash-Out, no consolidating 2nd mortgages, only Rate/Term Refinances will be allowed. You will also be able to include your closing costs in the refinance, so long as the new loan balance does not exceed \$793,750.

Events This Week:

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

Events Next Week:

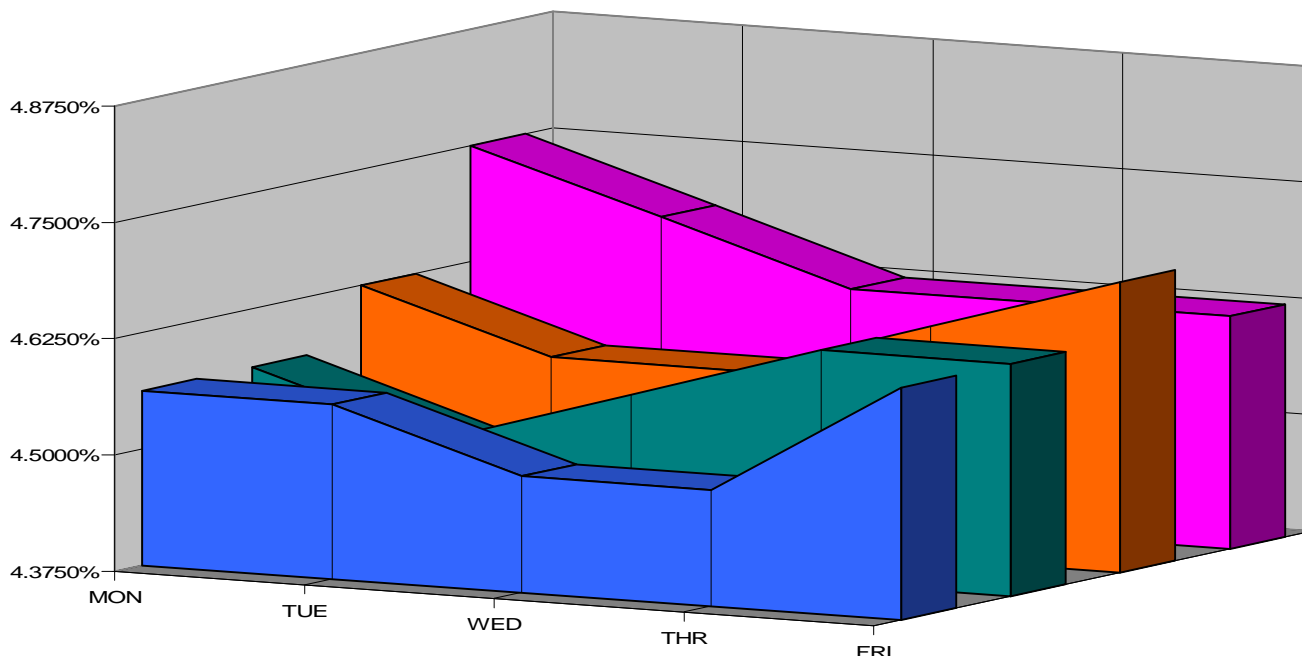
- Mon 4/20
Leading Indicators
- Thur 4/23
Existing Home Sales
Jobless Claims
- Fri 4/24
Durable Orders
New Home Sales

Also Notable:

- The March Producer Price Index posted its largest annual decline since 1950
- March Housing Starts fell 11% to an annual rate of 510K units
- The April NAHB housing market sentiment index posted a sharp improvement
- The Fed purchased \$22 billion in agency MBS during the week ending 4/15

DAILY RATES FROM HAWAII'S TOP LENDERS:

Fannie Mae Base Rate (30-YR-FXD)



Average 30 yr fixed rate:	
Last week:	+0.01%
This week:	+0.03%

Stocks (weekly):		
Dow:	8,100	+10
NASDAQ:	1,660	+20

Above rates are the Monday-Friday daily base rates. Add-ons for low credit scores, high LTV, cash-out, or investment properties are then added to that rate. Borrowers can also "buy down" these rates by paying additional points.

Each color on the graph represents a different lender.

Week Ahead

The Economic Calendar will be relatively light next week. Friday's report on Durable Orders will be an important indicator of economic activity. Existing Home Sales and New Home Sales will be released on Thursday and Friday, respectively. Leading Indicators will come out on Monday.