

Compliments of
Alan Zukerkorn
 President
Hawaii Mortgage
 Company Inc.

PHONE:
 (808) 988-6622
 (888) 632-6622

alan@hawaiimortgage.net

Strong Demand for Treasury Auctions

After rising significantly over the last couple of weeks, mortgage rates moved higher again this week, but at a much slower pace. Strong demand for this week's large Treasury auctions helped keep mortgage rates relatively stable. At current yields, both foreign and domestic investors showed above average interest in adding bonds to their portfolios.

Behind the recent rise in mortgage rates has been an improved economic outlook and concerns about the enormous supply of new debt needed to pay for government programs. This leaves the Fed in a difficult position. Fed officials would like to keep mortgage rates low to lift the economy. To accomplish this, however, the Fed would have to significantly increase its purchases of mortgage-backed securities (MBS), requiring it to issue even more debt and adding to inflation concerns.

Most analysts believe that the Fed is unlikely to expand its MBS purchase program. At the June 24th meeting, they instead expect the Fed to discuss an eventual exit strategy for the program, which might include stretching out their time frame for purchasing MBS. Reducing the weekly purchases would allow the Fed to gradually scale back its involvement in the market. The MBS purchase program has helped bring mortgage rates down since it was announced in November, but the Fed cannot continue to intervene in MBS markets indefinitely. Slowly reducing their MBS purchases may be the best way to minimize the impact on the market as they make their exit.

Psychology Of Rate Trends

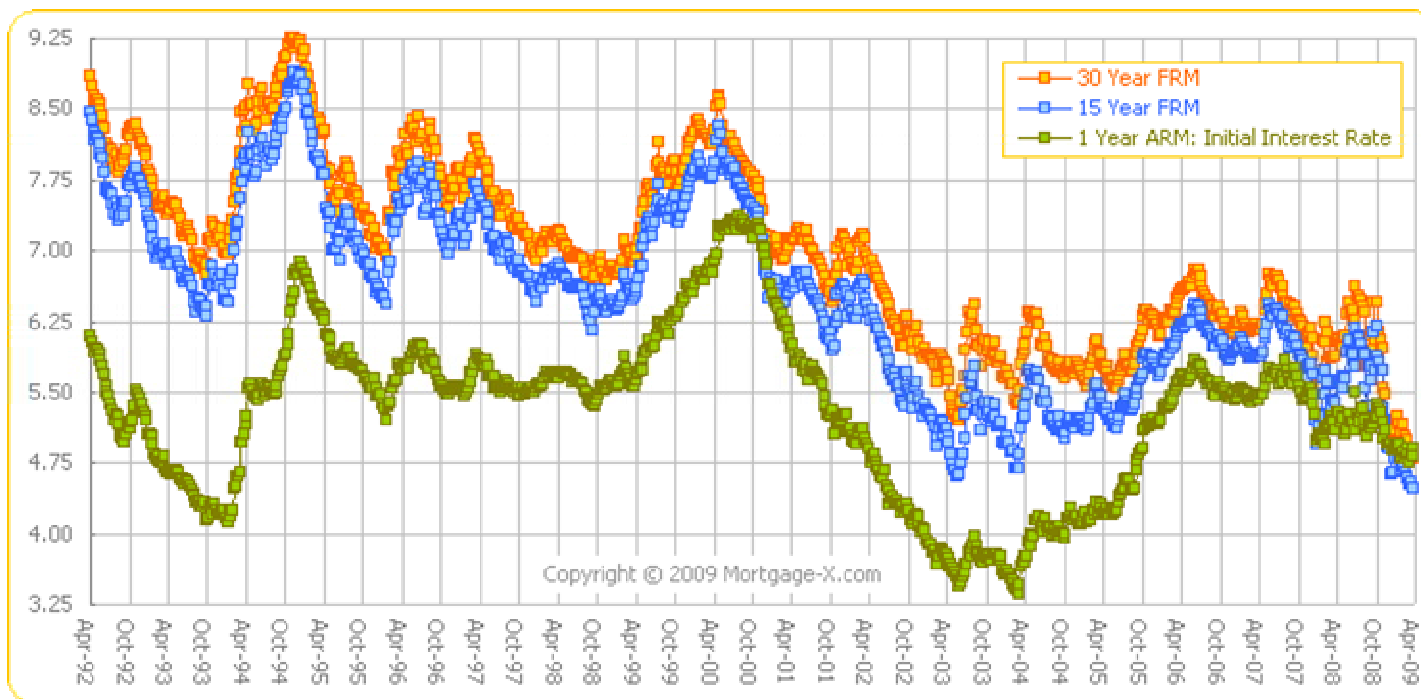
After spending almost 15 years in the mortgage industry, I have witnessed the many ups and downs within rate cycles. The chart below shows the average rate for 30-Year and 15-Year fixed mortgage, along with the 1-Year ARM. Many people in the process of buying their first home or those that purchased in the past 5 years have no real historical perspective on rates. With the recent rise in mortgage rates from their bottom in the mid 4% range, many consumers now feel that rates are "too high" to enter into the purchase market. We as consumers always remember the "sale" price and use that as a basis of value, versus looking at research to see what historically something has sold for. If we are unable to get the product for the lowest price ever offered, we feel ripped off. If we can no longer get the low, we feel we missed the boat. That is human nature.

Events This Week:

- Retail Sales Rose
- Inflation Steady
- Sentiment Higher
- Manufacturing Mixed

Events Next Week:

- Mon 6/15
Empire State
- Tues 6/16
PPI
Industrial Prod.
Housing Starts
- Wed 6/17
CPI
- Thur 6/18
Philly Fed



Now that mortgage rates have risen over 1% from the lows of the past few months, it is important for those thinking of purchasing a new home to not feel that they missed the boat with rates in the 5% range. When looking at the above chart, many might not remember 30-Year Fixed mortgages above 9%. In fact, the historical average for 30-Year Fixed mortgages for the past 20 years is above 7%.

In October 2000, if I could offer an 8% 30-Year Fixed mortgage, I was a hero. From 2000 to 2002 the 6% 30-Year Fixed was non-existent. From 2002 till the end of 2008 the 30-Year Fixed only touched the 5% mark twice, and for only brief periods of time. In 20 years of data, the 4% mortgage was available for 4 of those 240 months. Those 4 months being the first 4 months of 2009.

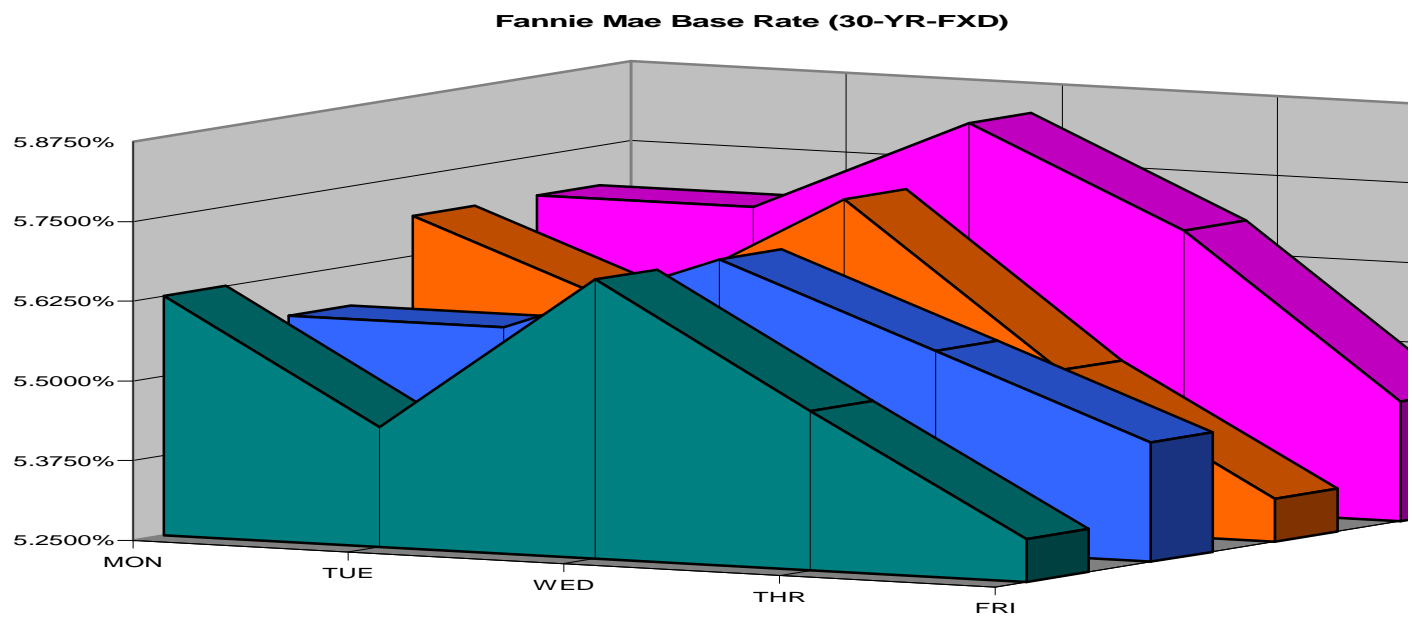
In terms of historical averages, a 6% 30-Year Fixed Mortgage is a great deal. If you have a fixed rate below 6% give yourself a pat on the back. If you or someone is thinking of or starting the home purchase process, don't let the current rates in the mid 5% range stop you from proceeding. There is an index called the "Affordability Index" which measures buying ability based on home prices and interest rates. That index is now at its highest level for affordability. That is based on a huge drop in home prices and yes, still historically low rates. If you or someone you know is contemplating purchasing a home, now is a great time. Don't miss the boat by waiting for the deal that may never come your way.

Also Notable:

- May Retail Sales showed small gains from April
- The Fed's Lacker expects a "bottoming-out process" in housing later this year
- Oil prices reached \$73 per barrel, the highest level of the year
- The Fed purchased \$23 billion in agency MBS during the week ending 6/10

DAILY RATES FROM HAWAII'S TOP LENDERS:

| | |
|---------------------------|--------|
| Average 30 yr fixed rate: | |
| Last week: | +0.15% |
| This week: | +0.05% |



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 most significant economic data next week will be the monthly inflation reports. The Producer Price Index (PPI) focuses on the increase in prices of "intermediate" goods used by companies to produce finished products and will come out on Tuesday. The Consumer Price Index (CPI), the most closely watched monthly inflation report, will come out on Wednesday. CPI looks at the price change for those finished goods which are sold to consumers. In addition, Industrial Production and Housing Starts will be released on Tuesday. The Empire State and Philadelphia Fed regional manufacturing indexes will round out the schedule.

All material Copyright © Hawaii Mortgage Company, Inc. & Ressa No. 1, LTD and may not be reproduced without permission.

This email was sent from Alan Zukerkorn of Hawaii Mortgage Company Inc. To unsubscribe, reply to this email with the word UNSUBSCRIBE in the subject.