

Compliments of

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Stock Rally Pushes Mortgage Rates Higher

While the economic data released during the week generally matched expectations, the outlook for future economic growth improved due to strong earnings reports, tame inflation data, and a revised forecast from the Fed. Stronger economic growth was good news for the stock market, and the Dow rose over 500 points. It was unfavorable for the bond market, however, and mortgage rates ended the week moderately higher.

On Wednesday, the Fed released its minutes from the June 24 FOMC meeting, and most of the news was negative for mortgage rates. The minutes revealed an upward revision to the Fed's forecast for economic growth and inflation in 2009 and 2010. In addition, Fed officials expressed a strong reluctance to increase any further the program to purchase mortgage-backed securities (MBS). Mortgage rates are largely determined by MBS prices. When the Fed initially announced its MBS purchase program in November, mortgage rates immediately dropped, and they dropped again significantly when the Fed announced an increase in the program in March. The Fed has a substantial involvement in MBS markets, and any change in this program would have a major impact on mortgage rates.

The housing sector data released during the week showed improvement. June Housing Starts rose 4% to the highest level in seven months. Building Permits, a leading indicator, jumped 9%. The national Association of Home Builders (NAHB) sentiment index increased to the highest level since September 2008. According to the NAHB, the first-time homebuyer tax credit, low mortgage rates, and "attractive" home prices are helping home sales.

Events This Week:

Inflation Low

Retail Sales Rose

Housing Starts Up

Manufacturing Mixed

Events Next Week:

Mon 7/20

Leading Indicators

Tues 7/21

Bernanke Speaks

Thur 7/23

Existing Home Sales

Fri 7/24

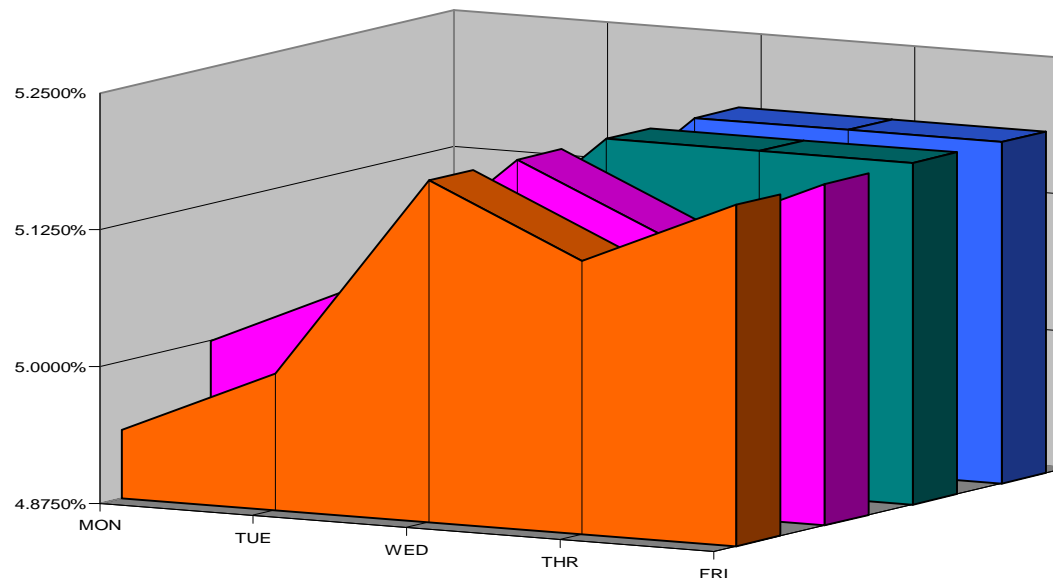
Sentiment

Also Notable:

- June Core CPI inflation rose at a low 1.7% annual rate
- Capacity Utilization fell to a record low reading in June
- After falling below \$60 per barrel, oil prices rose back to \$63 per barrel
- The Fed purchased \$22 billion in agency MBS during the week ending 7/15

DAILY RATES FROM HAWAII'S TOP LENDERS:

Fannie Mae Base Rate (30-YR-FXD)



Average 30 yr fixed rate:

Last week: -0.20%

This week: +0.20%

Stocks (weekly):

Dow: 8,700 +575

NASDAQ: 1,875 +125

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 very light next week. Leading Indicators will come out on Monday, Existing Home Sales will be released on Thursday, and Consumer Sentiment will come out on Friday. In addition to the economic data, Fed Chief Bernanke will be testifying before Congress on Tuesday. Finally, Thursday's announcement about the size of upcoming Treasury auctions also may have an impact on mortgage rates.

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