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Auction Results Push Mortgage Rates Lower

Mortgage investors were more focused on this week's Treasury auctions than on the economic data. Overall, demand remained healthy for US Treasury securities, and mortgage rates ended the week a little lower. Major economic reports on Gross Domestic Product (GDP), Durable Orders, and Chicago PMI manufacturing contained mixed results and were roughly neutral for mortgage rates.

While recent Treasury auctions have seen stronger than average demand, investors remained cautious ahead of this week's record supply of government debt. The auctions got off to a rocky start, with demand falling back to average levels for the 2-yr and 5-yr auctions. Strong foreign demand for the 7-yr Treasuries eased investor concerns, however, and mortgage rates improved after the auction. China, in particular, holds about \$800 billion in US Treasury securities and is an enormous buyer. Chinese officials were in Washington this week meeting with US economic leaders, and the Chinese expressed concern that US budget deficits would reduce the value of its US Treasuries. Analysts believe that reduced buying from China caused the weaker than expected demand for the 2-yr and 5-yr auctions, but they fully participated in the 7-yr auction. With the US government issuing record amounts of new debt, investors will be closely watching for changes in China's purchasing policy. Any perceived reduction in China's demand would likely push long-term interest rates, including mortgage rates, higher.

This week's housing market data was generally positive. June New Home Sales jumped 11%, the third straight month of increases. Inventories of unsold new homes fell to an 8.8-month supply from a 10.2-month supply in May. The May Case-Shiller index of home prices in 20 metropolitan areas (Hawaii is not part of the index) rose 0.5% from April, following 34 straight months of declines. While the results varied greatly in different parts of the country, the increase in average prices provided support for the analysts who believe that the housing market has bottomed.

New Disclosure Act A Bust For Consumers

Yesterday marked the implementation of the Mortgage Disclosure Improvement Act. While some in Washington see this legislation as beneficial to consumers, their shortsightedness failed to show them the downside. The original intent was to afford consumers time to receive and digest disclosures from lenders before committing and giving money to any one lender. The problem is that congress failed to recognize that time is money. In a volatile rate market, most consumers do not want to play the market and float their loan. If they are happy with the rate quoted, most would lock their rate. This act extends the time needed to close a purchase or refinance transaction. Added days mean either a higher rate or greater cost to the consumer. This act is yet another example of Washington thinking they are helping the consumer, when in reality they are making it worse.

Prior to the government getting deeply involved in the mortgage industry (less than 1 year ago) a typical refinance transaction would be completed in 20 days from the day the application was taken. Now that lenders have the Mortgage Disclosure Improvement Act and the recently enacted Home Value Code of Conduct, plus the snail's pace a consumer's application moves through the underwriting process, you will be lucky to be completed in 60 days. The difference between a 30-day rate lock and a 60-day rate lock is typically ½ point in costs. In Hawaii, where the average mortgage loan is roughly \$400,000, that results in an extra cost to the consumer of \$2,000. The only way the consumer can avoid this extra fee is to play Vegas with the bond market and float their loan through the process. Those that read this newsletter regularly know that the bond market has been VERY volatile recently. If a consumer were to choose to float their loan instead of paying the additional ½ point, and rates were to move up ½ percent, the additional cost to the consumer over the life of the loan would be almost \$45,000. This in my opinion does not help the consumer.

Events This Week:

GDP Higher

Durable Orders Fell

New Home Sales Up

Manufacturing Rose

Events Next Week:

Mon 8/3

ISM Manuf.
Construction

Tues 8/4

Pending Sales
Income

Wed 8/5

ISM Services
Factory Orders

Fri 8/7

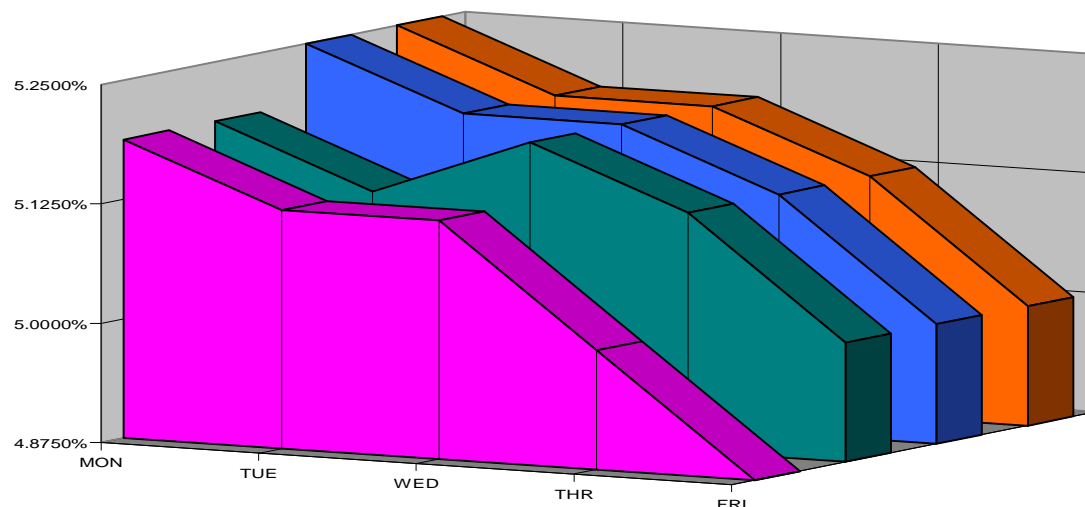
Employment

Also Notable:

- Second quarter GDP fell -1.0%, and the first quarter data was revised lower to -6.4%
- The Fed's Beige Book indicated that the economy is showing signs of stabilization
- The Dow stock index rose above 9,200 for the first time since November
- The Fed purchased \$20 billion in agency MBS during the week ending 7/29

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:	-0.10%

Stocks (weekly):		
Dow:	9,200	+150
NASDAQ:	2,000	+50

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

Next week, the important Employment report will come out on Friday. As usual, this data on the number of jobs, the Unemployment Rate, and wage inflation will be the most highly anticipated economic data of the month. Early estimates are for a loss of about 333K jobs in July. Before the Employment data, the ISM national manufacturing index will come out on Monday. Pending Home Sales, a leading indicator for the housing market, will be released on Tuesday. Personal Income, ISM Services, Construction Spending, and Factory Orders will round out the schedule. Also notable, the Treasury will announce the size of upcoming Treasury auctions on Wednesday.

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