

Compliments of
Alan Zukerkorn
 President
Hawaii Mortgage
 Company Inc.

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

alan@hawaiimortgage.net

Housing Data Exceeds Expectations

Strong manufacturing and housing sector data contributed to a rally in the stock market this week. This would ordinarily push mortgage rates higher, but the strong economic news was offset by tame PPI inflation data and a significant increase in Fed purchases of mortgage-backed securities (MBS), leading to a mild decline in mortgage rates during the week.

The national housing market data released this week was positive. July Existing Home Sales rose 7% from June, to the highest level since August 2007, and were 5% higher than one year ago. This marked the fourth straight monthly increase. Taking advantage of the \$8,000 tax credit, first-time homebuyers accounted for 30% of all transactions. Inventories of unsold homes held steady from June at a 9.4-month supply.

In addition, the National Association of Home Builders (NAHB) Housing Market index rose to the highest level since June 2008, indicating an improvement in home builder confidence. The NAHB also reported that housing affordability during the second quarter of 2009 remained near record levels. The improvement in home builder confidence was reflected in a fifth consecutive month of increased single-family housing starts in July. High affordability, low interest rates, and the first-time homebuyer tax credit combined to improve sentiment and stimulate housing market activity.

Events This Week:

- Inflation Low
- Jobless Claims Rose
- Existing Sales Higher
- Manufacturing Up

The Pitfalls Of The Short Sale

The Short Sale. The new buzz word and opportunity for homeowners trying to dump their property for less than what is owed, is not the panacea for everyone. Yes they can be done, but it is in no way an easy proposition. One must take into account that a Short Sale is an "Open" negotiation to purchase property, and every aspect of the transaction is open to negotiation. Be aware that a Short Sale is nothing more than a negotiation to release the mortgage lien from the property so that title can be transferred. Here are some of the truths that sellers and buyers should be made aware of when considering this type of transaction.

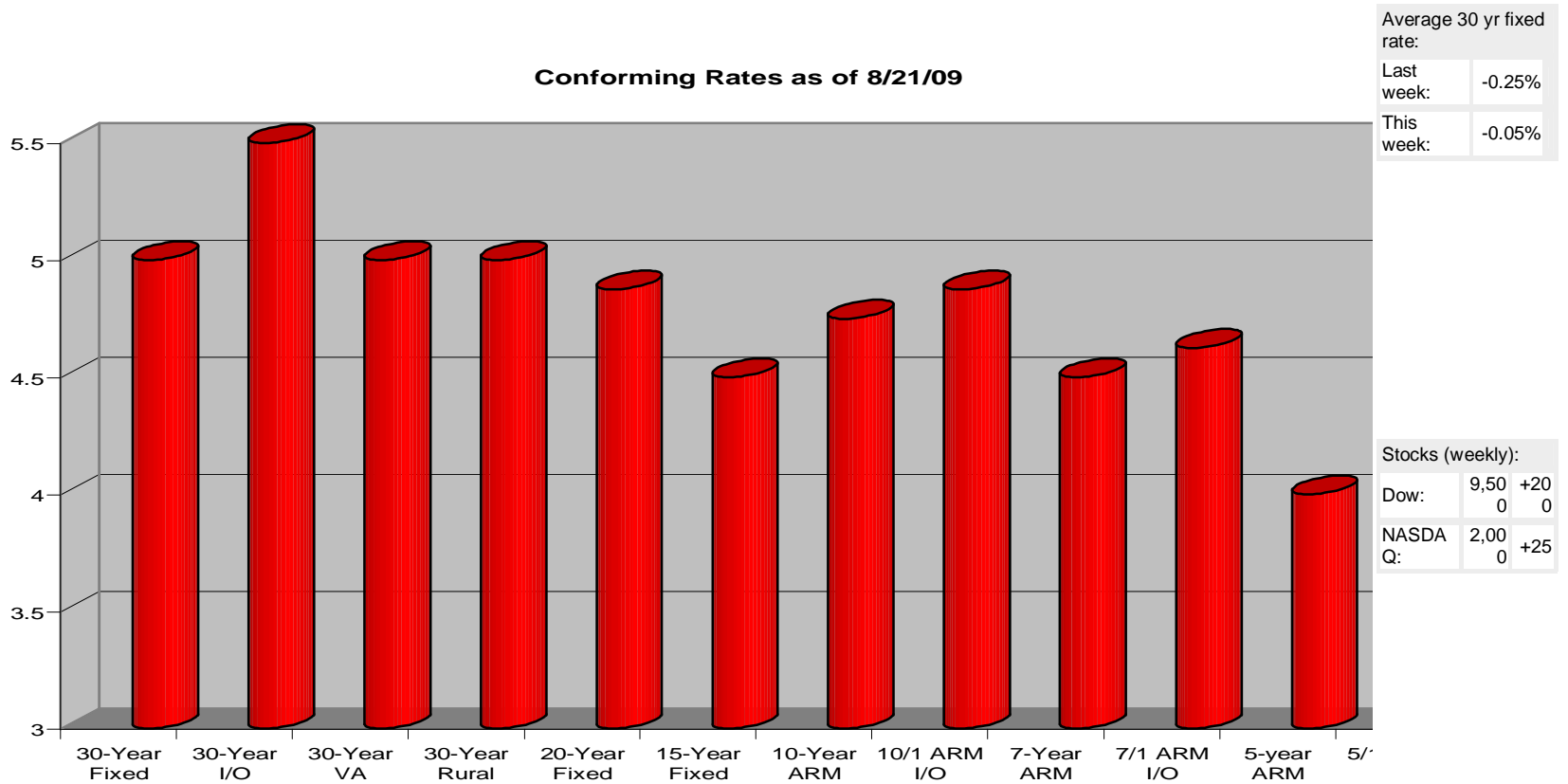
- 1) A negotiated Short Sale could take several months for a lender to approve. With interest rates expected to only go up, some buyers might not want to wait.
- 2) The lender can counter the offered price and also stipulate that the buyers pay fees not customary with Hawaii transactions. These fees could include the buyer paying back property taxes, back HOA fees, paying commissions, and paying all of the Escrow and Title fees.
- 3) Once the lender approves the Short Sale, their terms might not be acceptable to the buyer. After waiting two months for the lender to approve a short sale, a buyer just cancelled their transaction because the lender required the transaction close in 30 days. The husband was out of the country and they would not be able to close in the required time frame.
- 4) A short sale does impact the seller's credit rating. Depending on the payment history of the seller with their current loan, upon completion of the short sale the lender will report the mortgage to the credit bureaus differently. Deed In Lieu Of Foreclosure is one step up from foreclosure and is issued if the seller has stopped paying the mortgage during the short sale period. Paid In Full For Less Than The Full Balance will be issued if the seller has continued to make all payments on time. This rating will still have a major impact on one's credit, and affect their ability to get another mortgage.
- 5) Upon completion of the short sale, the lender will issue a 1099-C and submit it to the IRS. Sellers should consult a tax professional to determine their individual impact.
- 6) Last, but maybe the most important item a seller needs to know is that the lender may and can require the seller to sign a separate promissory note to cover any shortage of what is owed to the lender.

Events Next Week:

- Tues 8/25
Confidence
2-yr Auction
- Wed 8/26
Durable Orders
New Home Sales
5-yr Auction
- Thur 8/27
GDP
7-yr Auction
- Fri 8/28
Core PCE
Income

Also Notable:

- July Core PPI inflation rose at a tame 2.6% annual rate
- The Fed will auction a record \$109 billion next week
- Oil prices rose to \$74 per barrel, the highest level of the year
- The Fed purchased \$25 billion in agency MBS during the week ending 8/19



Week Ahead

Next week's first economic data will be Tuesday's report on Consumer Confidence. Durable Orders, an important indicator of economic activity, and New Home Sales will be released on Wednesday. Revisions to second quarter Gross Domestic Product (GDP) will come out on Thursday. Finally, Core PCE inflation data and Personal Income will be released on Friday. In addition, there will be Treasury auctions on Tuesday, Wednesday, and Thursday.

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