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### Mortgage Rates Hold Steady

There were few surprises in the economic data released this week, and the record \$109 billion in Treasury auctions went smoothly. As a result, it was a quiet week for mortgage markets. This week's economic data showed signs that the economy is gradually improving, while inflation is not a concern right now. Demand remained solid for the Treasury auctions. Mortgage rates ended the week nearly unchanged.

Last week, the Fed increased its weekly mortgage-backed securities (MBS) purchases to about \$25 billion, and it maintained that level this week. Prior to that, the Fed had purchased roughly \$20 billion per week for a couple of months. The current pace would lead to total purchases of the authorized \$1.25 trillion by the end of the year, which is when the program is scheduled to expire. Mortgage rates are largely determined by MBS prices, and the added demand from the Fed has helped to keep mortgage rates low. In a speech this week, the Fed's Lacker suggested that with the economy improving the Fed may not need to purchase the entire \$1.25 trillion of MBS. Lacker's comments caused little reaction, as his views are often contrary to those of the other Fed officials, but if that were to happen, then mortgage rates would almost certainly move higher. Mortgage investors will be closely watching the Fed's plans for this program.

The housing data released this week was again positive. July New Home Sales rose 10% from June to the highest level since September. Inventories dropped to a 7.5-month supply, which was the lowest level since April 2007. This data follows a similar rise in July Existing Home Sales announced last week.

### Waiting On the Fence Could Cost You Thousands

There are still thousands of Hawaii home owners that are waiting for rates to once again drop into the mid to low 4% range before refinancing. If you are sitting there at 5% for your 30-Year Fixed, the wait is justifiable. But those I am concerned about are the thousand still with 6% mortgages and higher. They know they could save by refinancing, but do not want to accept 5%. This newsletter was designed from the beginning to give consumers and those in the real estate industry clear and unbiased information about the world of mortgage financing. If you are one of those out there with a 30-year fixed mortgage at a rate of 6% or higher, you need to act soon. The story above in specific language explains that mortgage rates are now artificially low and will end soon. For those that are unaware or do not understand the correlation between mortgage rates and MBS purchases, I'll try and explain it simply.

In December of 2008 the Treasury Dept. announced that it would start buying Mortgage Backed Securities. MBS are the end product of your Fannie or Freddie loan on your home after they buy it from your lender. The government by their action has created an artificial demand for MBS so therefore Fannie and Freddie did not need to give these "investors" premium rates in order for them to buy your loan. Once the Fed stops buying MBS, the artificial demand will be gone, and Fannie and Freddie will have to raise the rates of these securities in order for them to be bought. There has been no discussion about the program continuing. The country is now focused on a health care debate. Congress and the administration feel their work to "bail out" the mortgage market is done. If you do not act soon, you could miss your last chance to save thousands in interest expense over the life of your loan.

### Simple Math To Save Thousand In Mortgage Interest

If you still want a mortgage in the 4% range, have you thought about a 20 or 15 year mortgage? If a higher monthly payment is a possibility for you, this option will save thousands over the life of your loan. Below is how much you will pay in interest over the life of each loan based on a \$400,000 note using today's current rates:

30-Year Fixed at 5.000% interest. Over the life of your loan you will pay \$373,021 in interest.

20-Year Fixed at 4.750% interest. Over the life of your loan you will pay \$220,375 in interest.

15-Year Fixed at 4.500% interest. Over the life of your loan you will pay \$150,795 in interest.

#### Events This Week:

- Inflation Low
- Durable Orders Rose
- Home Sales Higher
- Manufacturing Up

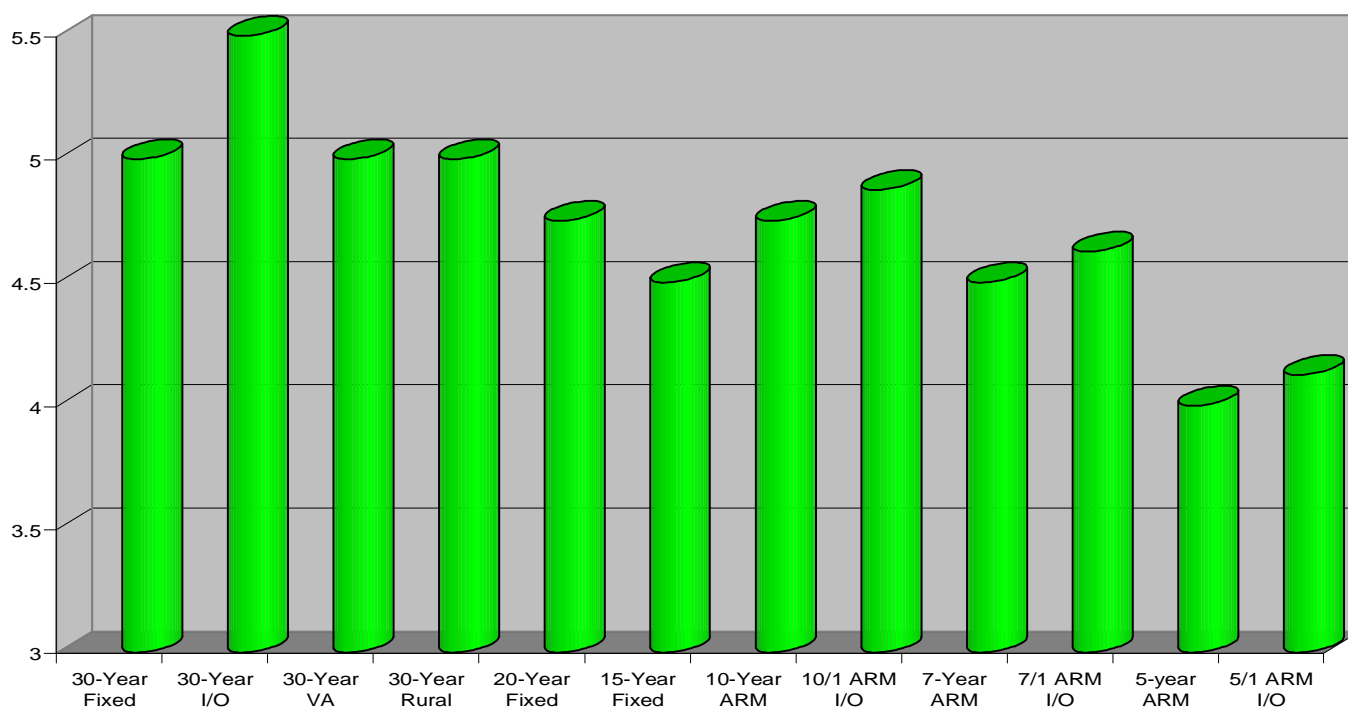
#### Events Next Week:

- Mon 8/31  
Chicago PMI
- Tues 9/1  
ISM Manuf.  
Pending Sales
- Wed 9/2  
Fed Minutes  
Productivity
- Fri 9/4  
Employment

#### Also Notable:

- The Core PCE price index showed that inflation rose at a tame 1.4% annual rate
- Foreign buyers purchased a strong 61% of the 7-yr Treasury auction
- Bernanke will be reappointed for a second term as Fed Chairman
- The Fed purchased \$25 billion in agency MBS during the week ending 8/26

**Conforming Rates as of 8/28/09**



Average 30 yr fixed rate:	
Last week:	-0.05%
This week:	-0.02%

Stocks (weekly):		
Dow:	9,600	+10
NASDAQ:	2,040	+40

#### 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 225K jobs in August. Before the Employment data, the Chicago PMI national manufacturing index will come out on Monday. Pending Home Sales, a leading indicator for the housing market, will be released on Tuesday, along with the ISM index and Construction Spending. The FOMC minutes from the August 12 Fed meeting will come out on Wednesday. Productivity, ISM Services, and Factory Orders will round out the schedule. Also notable, the Treasury will announce the size of upcoming Treasury auctions on Thursday.

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