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## Existing Home Sales Surge

There were few major surprises in the economic news this week, and little change in the stock market. While there was a great deal of daily volatility, mortgage rates ended the week nearly unchanged.

A flood of housing market data was released during the week, and most of it reflected improvement in the sector. The biggest unexpected news came from the September Existing Home Sales report, which jumped 9% from August to the highest level since July 2007. Inventories of unsold existing homes dropped sharply to a 7.8-month supply from a 9.3-month supply in August. This marked the lowest inventory levels in two and one-half years. September Housing Starts remained at depressed levels, which removes pressure on future inventory levels. Building Permits, a leading indicator, also held at low levels. In short, home sales improved, while inventory levels moved lower with a relatively light supply of new homes in coming months. If there is a note of caution, though, it's that much of the activity has been spurred by exceptionally low mortgage rates and the first-time homebuyer tax credit, and the future is uncertain on both fronts. The Fed is scaling back its purchases of mortgage-backed securities, which might push mortgage rates gradually higher, and lawmakers are currently debating whether to extend the first-time homebuyer tax credit.

The Mortgage Bankers Association (MBA) also released its forecasts for this year and next. According to the MBA projections, purchase originations will decline slightly in 2009, but will then increase by 12% in 2010. Similarly, the MBA forecasts that existing home sales will rise by 11% in 2010. The chief economist of the MBA suggested that the timing of the economic recovery and the level of mortgage rates are the biggest variables influencing the results for 2010.

## Consolidate Debt The Right Way

One of the top reasons people call me to refinance their home is to consolidate consumer debt. Credit cards that are maxed, an auto loan with a high interest rate, and even student loans. I always ask the borrower their motivating reason for the consolidation. If the answer is a lower payment, I get worried. The lower payment answer is an overall bad strategy because the consumer is taking a debt that is scheduled to be paid back in 5 years or less, and stretching it out over 30 years. The \$25,000 in credit card debt could end up costing the almost \$50,000 if truly left to be paid over the 30 years. The worst part is that often, those who consolidate and pay off their credit cards to seek a lower payment, will more than likely run their balances back up again. After almost 15 years of providing financing, I have seen my share of homeowners slowly but surely eat away at the equity in their home every few years, only to come back and zero out the credit cards once again.

The right answer to the question of why one should consolidate their debt is to take advantage of lower interest rates and the benefit from the home mortgage deduction. It might seem that either way you answered the question, the result is the same: dump your debt onto your home and get a lower payment. That part is true. The difference is how you pay it back! If you were to consolidate your debt, get a lower payment, but continue to pay the same amount as what your total payments were for all your obligations, you would come out way ahead.

Recently I helped a consumer who had \$100,000 in consumer debt get a cash-out refinance from his home to pay it off. The monthly payment on his new loan was almost \$2,000 per month less than the minimum payments on all his credit cards. Instead of taking the lower payment and spreading out his debt over 30 years, he now pays his mortgage payment PLUS the additional \$2,000 per month as a additional payment towards principal. His new \$400,000 mortgage, which included all of his debt, will now be paid off sooner than his old \$300,000 mortgage. He also enjoys the larger mortgage tax deduction. All this, without increasing his monthly expenses. The key to winning at debt consolidation is to maintain the same payment, but find a lower rate being charged on the principal.

Strategies like these are not presented by telemarketing loan centers or junior loan officers sitting in a bank branch. For an honest hassle free evaluation of your current mortgage and how refinancing can help you pay your debt of sooner, please give me a call.

### Events This Week:

Inflation Steady

Housing Improved

Jobless Claims Rose

Manufacturing Mixed

### Events Next Week:

Tues 10/20  
Durable Orders  
2-yr Auction

Wed 10/21  
New Home Sales  
5-yr Auction

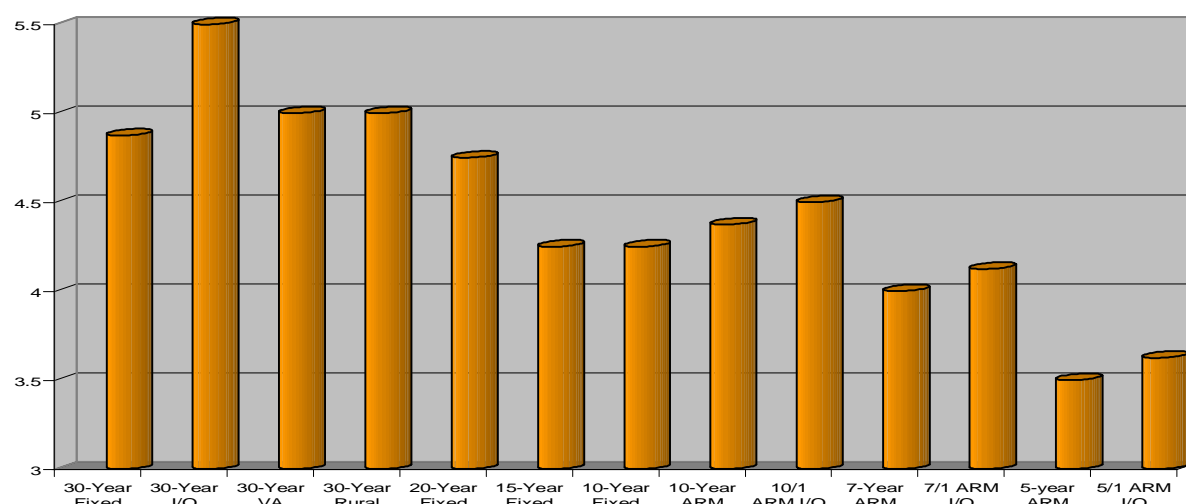
Thur 10/22  
GDP  
7-yr Auction

Fri 10/23  
Chicago PMI  
Core PCE

### Also Notable:

- September Core PPI inflation rose at a tame 1.8% annual rate
- The Fed's Beige Book reported modest improvement in "many sectors" of the economy
- The Treasury will auction a record \$116 billion in 2-yr, 5-yr, and 7-yr securities next week
- The Fed purchased \$18 billion in agency MBS during the week ending 10/21

Conforming Rates as of 10/23/09



Average 30 yr fixed rate:

Last week: +0.15%

This week: +0.01%

Stocks (weekly):

Dow: 10,000 +50

NASDAQ: 2,160 +10

## Week Ahead

The final week of October will be packed with important economic data. The most highly anticipated will be Thursday's release of third quarter Gross Domestic Product (GDP), the broadest measure of economic activity. Durable Orders, another major indicator of economic activity, will come out on Tuesday. The New Home Sales report is scheduled for Wednesday. Chicago PMI, Personal Income, and Core PCE inflation will be released on Friday. Consumer Confidence and Consumer Sentiment will round out the busy week. In addition, the Treasury will auction a record \$116 billion in 2-yr, 5-yr, and 7-yr securities on Tuesday, Wednesday, and Thursday.

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