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FINANCING

Getting to the bottom of things

By Marilyn Kennedy Melia | Special to the Tribune
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What the bottom looks like, seeing a check from a lender and other tidbits:

*Are we there yet? This summer, it's not just impatient kids in the back seat asking that, it's home buyers trying to figure out when they can bag the biggest bargain and anxious sellers wondering when they'll get their price.

How can they know when the market has "bottomed" and sales are headed upward again?

Look to the old real estate mantra -- location, location, location -- and add -- inventory, inventory, inventory -- advises Thomas Lawler, a Vienna, Va., housing economist.

"The biggest thing to watch is the number of homes up for sale in a given area," Lawler said. "Until the inventory, or the supply of homes in a given area, starts to go down, prices will probably have to drop somewhat."

At the end of June, the Chicago area had nearly 4 percent more homes listed for sale than a month earlier, reports Zip Realty.

Pay attention to inventories in your neighborhood, says Lawler, to establish the local market condition. "It can be hard to come by this data, but a real estate agent should be able to provide it. Insist upon it," says Lawler.

You also can ask how long a home is on the market before it goes under contract locally, says Russ Haraus, vice president at Appraisal Research Counselors, Chicago. Shorter intervals are a sign of a market turn.

Buyers are also "keenly interest rate sensitive," says Haraus.

"Six percent [on fixed-rate mortgages] is a big psychological point," says Keith Gumbinger, a spokesman for HSH Associates, a mortgage data firm. Any time rates fall at or near that level, it should jump start the market, he adds.

*Do these names sound familiar? If you took a mortgage from Town and Country Credit Corp., Ameriquest Mortgage Co. or AMC Mortgage Services (formerly Bedford Home Loans), keep an eye on the mail. This month, the Illinois attorney general or the Illinois banking regulator sent some 22,000 Illinois consumers who took a loan between January 1999 and Dec. 31, 2005, from one of these companies a form to claim a check as part of a class-action suit. Consumers filing a claim by Sept. 10 will receive various amounts, based on the lender's violation. Visit www.ameri questmultistatesettlement .com.

*Feeling "house rich?" Like grocery shopping when you're hungry, it can put you in a spending mood.

And proud owners aren't objective in estimating the value of their home. A recent study of 81,943 homeowners by Sumit Agarwal, economist at the Federal Reserve Bank of Chicago, finds that owners peg their home at an average 3.1 percent more than a bank appraisal.

Nothing wrong with a little pride, but such over-estimating is linked with spending down your housing wealth through home-equity borrowing, finds Agarwal.

In his study, 21 percent of owners over-valued their home by an average of 11 percent. They tended to take out a home-equity line of credit to score some cash. Under-estimators, on the other hand, tend to use the line to refinance a loan at a lower interest rate.

The study was based on data from borrowers in 2002. Since that was the beginning of the housing boom, Agarwal speculates that owners today may have less optimistic estimates of their home's value. The hidden upside of a down market could be that more owners will conserve, rather than spend, their housing wealth.

*What's your definition of "home security?" Besides alarms, think about how shaky those paychecks might be.

According to a new study from the Brookings Institution, American households have a 1.7 percent chance of seeing their annual income drop by half from its average previous three years, that compares to just a 0.6 percent chance in the early 1970s.

Incomes are more volatile than a generation ago, but buyers now can borrow more of a home's price. Couples taking on a mortgage that eats well into their combined income would do well to consider what could happen with a smaller payday, says Doug Elmendorf of Brookings.

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