

It turns out that nothing bad will last forever, either

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The market is just weeks away from the "spring" season, the time after the Super Bowl when activity traditionally hums. But the mortgage business and housing markets are weak as they enter 2008 and must climb back to recovery before they can run. Can they do it?

Here are some trends to watch and some insight on monitoring the market in your area:

All downturns end -- eventually.

When prices stall or fall, the factors that caused the slowdown usually have to improve before the market gets moving again, says Kerry Vandell, director of the Center for Real Estate at Paul Mirage School of Business, University of California, Irvine.

The last time Chicago (and national) prices flatlined was in the early 1990s. Then job losses and a recession on the heels of the savings and loan crisis were the culprits, and job creation helped cure it, says Vandell.

This time around, crazy credit conditions are largely to blame, Vandell says. Cheap credit helped overheat prices, and foreclosures and tight credit are keeping supplies high and eligible buyers low.

When the mortgage business gets back to "normal," housing prices will regain steam, Vandell predicts. Look for mortgage credit to become available at reasonable rates for those with modest down payments and good (not necessarily perfect) credit for housing prices.

Tighter lending could chill the spring.

The continuing credit mess, as well as some recent added fees and stricter standards, could crimp buyers' borrowing power this spring, says Bill McNamee, president of Pinnacle Home Mortgage, Lombard, and past president of the Illinois Association of Mortgage Professionals.

More cautious lenders want to issue only mortgages guaranteed by the government-sponsored Fannie Mae and Freddie Mac.

At the end of last year, those agencies said they would add a 25-basis-point surcharge on all new mortgages it backs or purchases after March 2008 -- a change that will probably result in about one-eighth point higher rate, says McNamee.

And borrowers needing a mortgage for more than 70 percent of the price of a home face bigger rate hikes, depending on their credit scores.

So most Chicago-area buyers will pay more, according to data from First American Loan Performance. In September, 61 percent of the loans guaranteed by Fannie Mae or Freddie Mac were for more than 70 percent of the home price.

Lenders' rates and credit decisions are in flux, however, notes McNamee. For instance, last fall, lenders raised rates on "jumbo" loans, those over \$417,000. Now they vary widely by issuer, says McNamee.

Scoring rules change.

Every couple of years Fair Isaac Corp., the "FICO credit score" folks, tweak the model for the scores used

by lenders.

The "FICO 08" scoring model will start to be used by one of the three major credit bureaus very early this year, and the other bureaus will follow, says Craig Watts, a Fair Isaac spokesman.

The scores still run from 300 to 850. But with the new formula, diligent bill payers who mess up just once won't take as big a hit to their score.

Supply, demand count.

National price trends may not reflect what's going on in your neighborhood.

Jon Boyd, president of the National Association of Exclusive Buyers Agents, offers a relatively simple formula for monitoring micro-markets:

Find out how many homes are listed in a certain price range in the neighborhood you're interested in. Compare that to the number of homes sold in the same price range in the last year to find the current inventory -- and the projection of how long it will take to sell all these homes.

"Let's say there were 53 homes that sold between \$300,000 and \$500,000 last year. Right now there are 100 listed, and four sold last month. There is about a two-year supply -- if the pace of sales stays at four or five homes a month," he says.

As soon as sales start rising, inventories shrink. When inventories are no more than about a six-month supply, prices generally rise, Boyd concludes.