Even in this climate, there's no rule like an old rule

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Whether you're a buyer, seller or borrower, chances are you're confused.

With the mortgage and housing markets in such flux, how can you make a sound decision?

Experts point out that traditional "rules" of real estate still apply. Here is a how the maxims work:

Maxim: The pay-off for mortgage shopping can be in the thousands.

Application: Studies show that consumers spend more time shopping for cars, electronics and other goods than they do examining rates and fees on mortgage offers. Bargain-hunters seem to forget that a slight decline in rates adds up to big savings over the years.

Since most consumers are looking for the plain-vanilla fixed-rate mortgage, it's easier to compare one offer with another. Lenders also are crafting loans under the guidelines of federal mortgage agencies, notes Steven McCormick, president of First Centennial Mortgage, an Aurora brokerage. While, these agencies may decide that rates should be a half point higher for borrowers with a certain credit score, "not all firms will adopt [the hike] at the same time," says McCormick. What's more, some banks are going beyond the amount of down payment or credit score to determine the rate they'll offer a borrower. A customer who has other relationships with the firm, even a credit card, may be deemed worthier.

A bank, however, also may look at when the customer pays bills -- and notch up an offer, says David Hamermesh, a financial consultant with TowerGroup, Needham, Mass.

Maxim: The right price is key to making a sale.

Application: Sellers are prone to believe their home is special and will fetch more than it is worth.

Especially in today's slower market, a high initial price will force owners to come down. Re-pricing will keep the home on the market longer and can lead to an even lower price when it does sell, says John R. Knight, real estate professor at the University of the Pacific.

"We've had a hard time proving this, because you can't find data on listing-price changes," says Knight.

But according to data for home sales in Stockton, Calif., in the late 1990s, "It took longer for homes with price changes to sell, and they sold for about 9 percent less [than similar properties]. And this was during a time when the market was stable; I suspect there would be bigger drops now."

Knight's research rings true with buyers today, says Darlene Little, managing broker at Rubloff Residential Properties, Chicago. "They keep looking at what's new in a certain price range in the neighborhood [they want]," says Little. "When a new listing in their price pops up, they investigate right away. ... So if you put a home on for $500,000 that's worth $450,000, buyers will say, 'Hey, this isn't a $500,000 property.' What's more, you will lose some of the people who will pounce on the new $450,000 property."

Maxim: Negotiation sells.

Application: Buyers hear news about declining sales and prices and expect bargains. Even if sellers get an offer they consider outrageously low, it's smart to counter, says Morris Davis, a University of Wisconsin real estate professor.

If your home has been on the market for some time and the price trend is down in your neighborhood, the offer may not be as low as you think, Davis points out.

Besides, there's a lot more to an offer than price, adds Barbara Novak of PAV Realtors, Berwyn. "Maybe you haven't got a new place yet, and they'll agree to let you [stay] there a couple of months rent-free after closing."

Maxim: Homeowners anticipating a financial emergency can take out a home-equity line of credit.

Application: Lenders are much more discriminating about who qualifies for an equity line.

With recession looming, some financial planners advise taking a line out now even if there's no immediate need.

Opening a home equity line of credit doesn't mean you have to borrow -- it just allows you to borrow in a certain time frame.

Be prudent about what constitutes an of emergency, stresses Steven Weydert of Bowyer Weydert Wealth Planning Partners, Park Ridge.

Using your home to, say, tide you over in a job search is one thing. Taking on more debt in response to an overload of credit-card and other bills is quite another, says Weydert.

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Abstract (Document Summary)

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