

NEWS SPORTS ENTERTAINMENT BUSINESS HOMES JOBS CARS SHOPPING PLACE ADS NEWSPAPER SERVICES

**Chicago Tribune**  30° F  **Find Your New Home. Get Cash Back.** 

January 24, 2005 [Search for a Home](#) [How It Works](#)

[Home Search](#) | [Communities](#) | [Closing Home Purchases](#) | [News & Advice](#) | [Financing](#) | [Rentals](#)

#### Classified

Find a job  
Find a car  
Find real estate  
Rent an apartment  
Find a mortgage  
Personals  
Pets  
[Place an ad](#)

#### Shopping

[Sales & Deals -- New](#)  
[See newspaper ads](#)  
[Yellow pages](#)  
[Grocery coupons](#)

#### News | Opinion

[Local News](#)  
[Nation/World News](#)  
[Columnists](#)  
[Special Reports](#)  
[Multimedia](#)  
[Obituaries](#)  
[Corrections](#)

#### Weather | Traffic

[Skilling's forecast](#)  
[Chicago-area radar](#)

#### Business | Tech

#### Sports

#### Travel

#### Health

#### Education

#### Food

#### Entertainment

#### Today's Paper

[Registration](#)  
[Subscription](#)  
[Contact us](#)

#### FINANCING

## Heady effect of housing wealth

By Marilyn Kennedy Melia

Special to the Tribune

Published January 23, 2005

Economists have long recognized "the wealth effect" whereby consumers open their wallets because they feel richer.

A recent study shows that when owners watch their homes rise in value, the wealth effect kicks in much more quickly than if they enjoy big gains in stock holdings.

The study, commissioned by the National Association of Realtors and conducted by the Joint Center for Housing Studies at Harvard University and Macroeconomic Advisers, St. Louis, finds that consumers spend about 5 1/2 cents of every dollar increase in both housing wealth and stock wealth. But they start spending the increased house wealth within one year, while it takes nearly five years for stock wealth to have the same effect.

"Homeowners are more confident of gains in housing wealth, so they spend more readily and quickly when they occur," says David Lereah, the Realtors' chief economist.

Homeowners were also motivated to spend more after obtaining extra cash in a refinancing, says Eric Belsky, executive director of the Harvard Center.

Such borrowing is "a rational response to lower interest rates," as long as owners don't take on a big new mortgage in relation to their home's increased value, Belsky says.

The wealth effect could eventually have an ill effect on those who borrowed a big chunk of their home's value, because prices might soften and they could then owe as much or more on the house than it is worth, says Neal Frankle, a Los Angeles financial planner and author of "Why Smart People Lose a Fortune" (Just Write Books, 2004).

Home as investment bank

When owners trade equity for equities, the odds don't favor the house.

Last month, the National Association of Security Dealers (NASD), the self-regulatory body for brokerage and securities firms, issued a reminder notice to brokerages about the dangers of recommending to clients that they use their home equity to buy stocks or other investments.

In the notice, association Vice Chairman Mary Schapiro warned: "Many homeowners have become wealthier -- at least on paper -- because of escalating home values. And more of them than ever before are tapping into their increased home equity to purchase securities."

The notice follows an NASD warning earlier last year that emphasized that investors who borrow against their homes could possibly lose them if the return



Photos available from the Chicago Tribune archives

**Chicago Tribune**  
What's in it for you?

[How to advertise](#)

#### Special reports



[Struggle for soul of Islam](#)

[Forensics under the microscope](#)

[Homicides in Chicago](#)  
[The great migration of China](#)  
[All special reports](#)

---

#### Top news stories

---

['Don't blame '24'](#)

[Car bomb 'mastermind' arrested](#)

**Update:** [Jury: FBI framed ex-cop](#)

**New:** [Gidwitz explores GOP gov bid](#)

**Update:** [Blaze burns firehouse](#)

on the investments is not sufficient to cover their new mortgages or equity borrowing costs.

The warnings came because brokerage firms were increasingly promoting the use of home equity borrowing to buy securities, notes Herb Perone, the association's spokesman.

The association also cited a study by the Federal Reserve Board that found that 11 percent of the funds from mortgage refinancing were used for stock market and other financial investments from 2001 through the first half of 2002.

The NASD isn't recommending that home equity borrowing for stock investment be prohibited; rather it wants firms to develop "best principles" for disclosing the risks to clients.

And, NASD wants firms to establish a "suitability analysis" for determining when it might be appropriate to use home equity for investments. The analysis would consider such factors as the amount of equity being tapped and how the homeowner would meet his or her new mortgage obligations.

A call to homeownership

In the January issue, Black Enterprise magazine declares that this year it will focus on motivating African Americans to buy their first home while interest rates are still relatively low and there's a range of low- and no- down-payment mortgages.

African-Americans have the lowest rate of homeownership of any ethnic group, and that's a primary reason there's a significant gap between the net worth of black and white households, the magazine says.

-----  
Address questions to Financing, Chicago Tribune, Real Estate section, 435 N. Michigan Ave., 4th Floor, Chicago, IL 60611. You may also e-mail [realestate@tribune.com](mailto:realestate@tribune.com).

Copyright © 2005, [Chicago Tribune](#)

>> **Save 47% off the newsstand price - [Subscribe to the Chicago Tribune](#)**

[Home](#) | [Copyright and terms of service](#) | [Privacy policy](#) | [Subscribe](#) | [Contact us](#) | [Archives](#) | [Advertise](#) | [Site tour](#)

**GIVE. IT'S CHICAGOLAND'S GIFT.**

CHICAGO TRIBUNE HOLIDAY GIVING

*A campaign of Chicago Tribune Charities, a McCormick Tribune Foundation Fund*

