

## The Problem of Foreclosures in Texas: Results of a State Study

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Preserving Homeownership:  
Addressing the Foreclosure Issue,  
Federal Reserve Bank of Dallas  
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### HB 1582 required TDHCA to study the issue

- Examine mortgage foreclosure activity in 6 counties
- Focus on relationship between foreclosure and:
  - *mortgage terms;*
  - *Socio-economic and geographic patterns;*
  - *Securitization of mortgages in the secondary market;*
  - *Consumer education efforts.*

## Foreclosure defined

- Delinquency is not foreclosure
- Foreclosure is **loss of property** following a state specific process
- Data on “postings” problematic
- **REO foreclosures** = those where loan bought by mortgage holder at sale

## The size of the problem in Texas

Rank	State	Total foreclosures July 2005- June 2006	# households with a mortgage per avg monthly # of foreclosures
1	Indiana	19,103	752
2	Georgia	23,858	795
3	Colorado	12,846	919
4	Michigan	25,751	921
5	Ohio	27,415	930
6	Texas	36,362	1,050
7	Utah	4,650	1,056
8	Tennessee	11,763	1,061
9	South Carolina	7,914	1,123

## Foreclosures Higher in Study Areas

Rank	County	Total Foreclosures 1/1/2002 to 6/30/2006	Foreclosures/ mortgages
1	Dallas	15,406	5.6%
2	Bexar	6,040	3.3%
3	Travis	3,327	3.1%
4	Harris	12,689	3.0%
5	Cameron	706	3.0%
6	El Paso	1,547	2.1%

## Possible causes

- Texas' short foreclosure process
- Economic conditions (job loss)
- Family breakup (divorce)
- "Excessive obligation"—high debt load
  - Lending practices?

## Length of process varies widely across high foreclosure states

High F States	Judicial Process?	Estimated length	Redemption period?
Indiana	Yes	266 days	No
Georgia	No	37	No
Colorado	No	91	Yes (75)
Michigan	No	90-425	Yes (30-365)
Ohio	Yes	217	No
Texas	No	27	No
Utah	No	138	No
Tennessee	No	40-45	Yes

## Causes of delinquency

Primary Reason for Delinquency	FHA Texas survey 2000-06	Freddie Mac Nat'l survey 1999-2005
Unemployment, loss of income	32%	41.5%
Illness, divorce, death in family	15	31.2
Excessive obligation (debts)	21	10.3
All other reasons	31	16.9

## Debts and credit scores

- Texas has the *worst average credit score* of any state (or DC): **648** (Aug 2006)
- National average was **675**
- Indication of higher credit *risk*, may result in *higher interest rate* loans, *worse terms*.
- Those with *weakest credit* more likely to have *subprime* rate loans--may be more *vulnerable to un reputable* lenders.

## Texas' Border Cities Lead Nation in Share of Lending that is Subprime

Subprime loans as % of all loans, by MSA, 2004:		
Home purchase		
#1	McAllen-Edinburg-Pharr	42.1%
#2	Odessa	40.9%
#4	Laredo	39.4%
#9	Brownsville-Harlingen	33.6%
Refinance		
#2	McAllen-Edinburg-Pharr	41.8%
#3	Brownsville-Harlingen	41.2%
#4	Odessa	40.9%
#6	Laredo	37.9%
#9	San Angelo	34.7%
#10	El Paso	34.3%

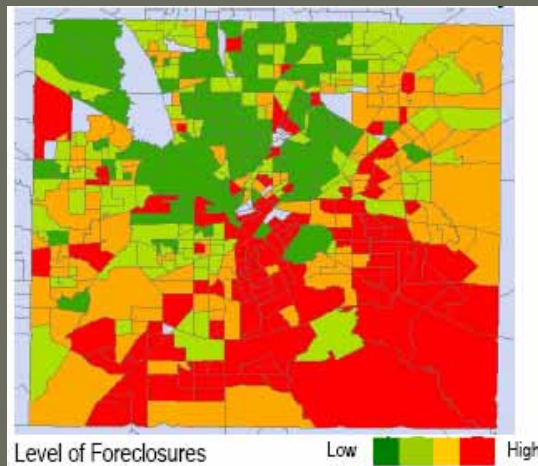
## The local picture: Our 6 counties

- Absent loan level info on terms—what can we tell about causes by metro area?
- Mapped foreclosures by census tract
- Mapped factors that might indicate areas for further investigation:
  - Income levels
  - Education levels
  - Minority population
  - linguistic isolation
  - high rate loans\*

## Dallas snapshot

- Highest rate of foreclosure (5.6%)
- 15,406 Foreclosures: 1/1/02 thru 6/30/06
- Most concentrated in areas with:
  - Below 90% median income
  - 22% or more HS drop outs
  - Majority minority population
  - At least 24% of loans at “high rates”

## Location of Foreclosures in Dallas County, January 1, 2002 - June 30, 2006

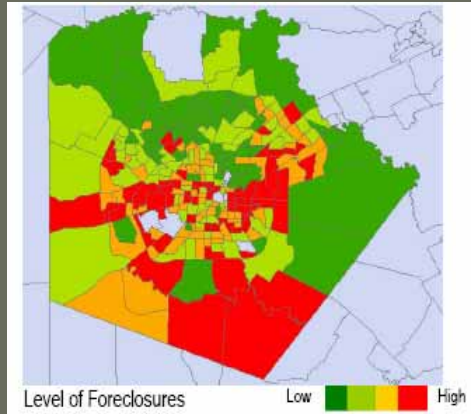


**Legend:**  
Very High =  
Above 8%  
  
High =  
5-8% of  
mortgages

## San Antonio (Bexar) Snapshot

- Second highest foreclosure rate (3.3%)
- 6,040 Foreclosures between 1/1/02 and 6/30/06
- Most concentrated in areas with:
  - Avg incomes below 90% median
  - 20% or more HS drop outs
  - >68% or higher 'minority' population
  - 6% or more 'linguistically isolated' households
  - At least 24% of loans were "high rate"

## Location of Foreclosures in Bexar County, January 1, 2002 - June 30, 2006

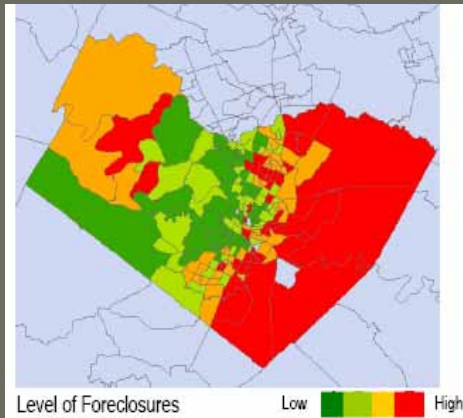


**Legend:**  
Very High =  
Above 5%  
  
High =  
3-5% of  
mortgages

## Austin (Travis) Snapshot

- Third highest foreclosure rate (3.1%)
- 3,327 Foreclosures between 1/1/02 and 6/30/06
- Most concentrated in areas where:
  - Avg incomes below 90% median
  - 10% or more HS drop outs
  - >38% or higher 'minority' population
  - 4% or more 'linguistically isolated' households
  - At least 10% of loans were "high rate"

## Location of Foreclosures in Travis County, January 1, 2002 - June 30, 2006

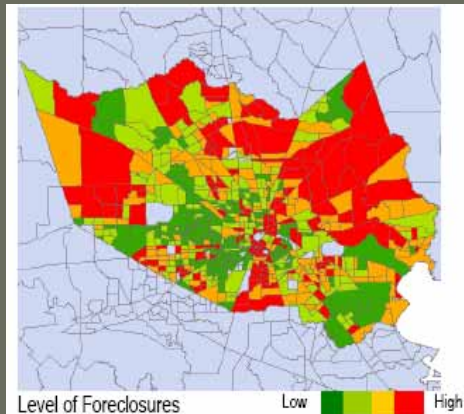


**Legend:**  
Very High =  
Above 5%  
  
High =  
2-5% of  
mortgages

## Houston (Harris) Snapshot

- Tied with Cameron with a foreclosure rate of 3.0%
- 12,689 Foreclosures from 1/1/02 to 6/30/06
- Most concentrated in areas with:
  - Avg incomes below 120% median
  - 10% or more HS drop outs
  - >60% 'minority' population
  - At least 27% of loans were "high rate"

## Location of Foreclosures in Harris County Jan 1, 2002 to June 30, 2006

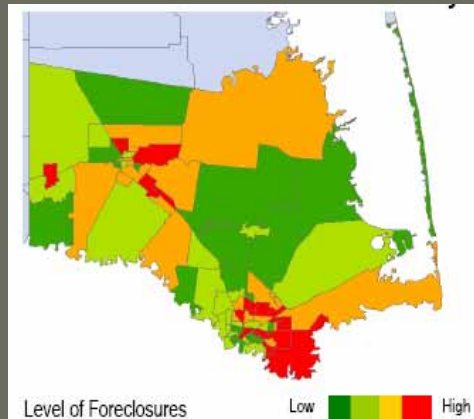


**Legend**  
Very high =  
Above 4%  
  
High =  
3-4%

## Cameron County Snapshot

- Tied with Harris for 2<sup>nd</sup> Highest rate of foreclosure (3.0%)
- 706 Foreclosures: 1/1/02 thru 6/30/06
- Most concentrated in areas with:
  - 47% or more HS drop outs
  - >90% 'minority' population
  - At least 36% of loans were "high rate"

## Location of Foreclosures in Cameron County Jan 1, 2002 to June 30, 2006



### Legend

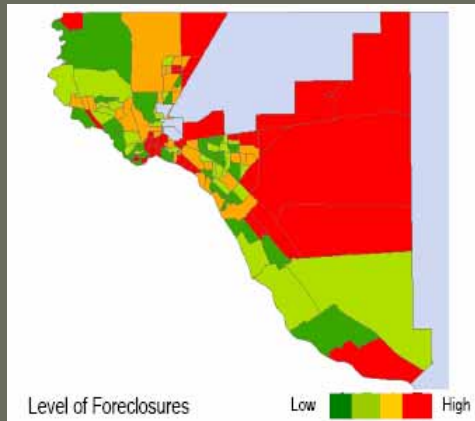
Very high =  
Above 4%

High =  
3-4%

## El Paso Snapshot

- Lowest rate of the 6 counties (2.1%)—still high relative to statewide average
- 1,547 Foreclosures: 1/1/02 thru 6/30/06
- Most concentrated in areas with:
  - Avg income <90% median
  - 10% or more HS drop outs
  - >38% 'minority' population
  - At least 10% of loans were "high rate"

## Location of Foreclosures in El Paso County Jan 1, 2002 to June 30, 2006



### Legend

Very high =  
Above 5%

High =  
2-5%

## Critical Role for Education

- **Foreclosures more likely in neighborhoods where**
  - Average incomes are below median
  - Education, language skills or race may put borrowers at a disadvantage in navigating the lending process
- **High rate loans can indicate either**
  - Poor credit of borrowers—high rate compensates for higher risk of default/foreclosure or,
  - Excessive fees or other poor terms placed on loans.
  - *Both* bring higher risk of foreclosure

## Need for focus on high foreclosure neighborhoods in future research

- Consequences for residents in area are severe
- May indicate abusive practices
- Need for in-depth, mixed methods research to get at causes, consequences and potential solutions