SpotLight

Texas Subprime Mortgages

Metros Vary on Risky Loans—and Delinquencies

The Dallas–Fort Worth area leads Texas' major metros in exposure to subprime mortgages—the high-risk loans that triggered the global financial crisis.

In second quarter 2008, the two North Texas cites and their suburbs, with 29 percent of the state's metro housing units, accounted for 37 percent of Texas' metro subprime mortgages (*Chart 1*).

The Houston area had about 24 percent of the subprime mortgages, a share slightly less than its 27 percent of housing units. Like Houston, Austin–Round Rock had fewer subprime mortgages relative to housing units. San Antonio had a share of subprime mortgages almost equal to its share of Texas' housing units, while El Paso had a slightly higher subprime share relative to housing units.

We classify mortgages as seriously delinquent when they're more than 60 days past due or in foreclosure. Dallas–Fort Worth led the major metros with about 19 percent of its subprime loans seriously delinquent, closely followed by Houston–Sugar Land with 18 percent (*Chart 2*).[1] San Antonio had about 15 percent, and Austin–Round Rock had 14 percent.

Looking at the smaller metros, the data show Wichita Falls led the state with about 20 percent of subprime loans in serious delinquency, while Odessa had the lowest proportion, with less than 10 percent.

Overall, Texas relied more than the nation on commercial subprime mortgages from mid-2003 to mid-2007—the period when such lending flourished. Yet in second quarter 2008, the state had less-severe problems with delinquencies and foreclosures than the nation did. Key to these trends were Texas' higher ratio of homeowners' equity in subprime loans and lower shares of highly risky adjustable-rate mortgages (ARMs) and cash-out refinancings.[2]

These factors vary widely among Texas metros. Loan-to-home-value ratios ranged from 82 percent in Austin–Round Rock to 88 percent in Odessa, with most metros reporting average home equity just shy of 85 percent.

The share of subprime loans including cash-out features was about 38 percent among Texas cities. It was as low as 24 percent in Laredo and as high as 47 percent in Victoria. ARMs accounted for about 40 percent of total subprime mortgages in Texas metros, but Abilene had as high as 48 percent and San Antonio just 34 percent.

The current financial crisis has brought a severe decline in subprime mortgage lending. Like the nation, Texas and its metros still have exposure to existing loans. Housing prices, unemployment and overall economic activity will play a significant part in determining how many of them run into trouble.

—Wenhua Di and Anil Kumar

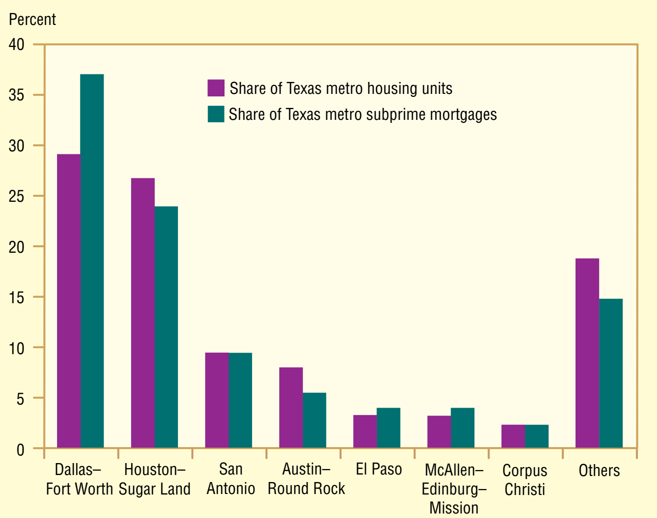
Notes

[1] For metro-level analysis of subprime mortgages in Texas, also see "Subprime Mortgage Performance by Metro Area," by Wenhua Di, Federal Reserve Bank of Dallas *e-Perspectives*, vol. 8, no. 2, 2008, dallasfed.org/ca/epersp/2008/2_3.cfm.

[2] See "Why Texas Feels Less Subprime Stress than U.S.," by Anil Kumar, Federal Reserve Bank of Dallas *Southwest Economy*, no. 6, 2008.

Chart 1

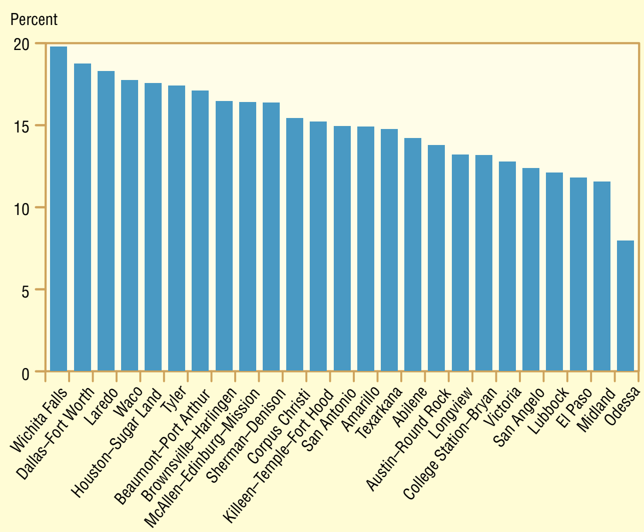
Subprime Mortgages Highest in Dallas–Fort Worth



SOURCE: First American LoanPerformance data from Federal Reserve Board, April 2008; Texas metro housing units from 2007 American Community Survey 1-Year Estimates; authors' calculations.

Chart 2

Metros Differ in Subprime Delinquency Rates



SOURCE: First American LoanPerformance data from Federal Reserve Board, April 2008; authors' calculations.