Texas Borderlands 2009

Housing Challenges Along the Border®

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CHAPTER 7: HOUSING CHALLENGES ON THE BORDER

The housing crisis in Texas is particularly difficult for families along the Texas-Mexico Border. A dramatic increase in the population coupled with a high poverty rate leaves many on the Border unable to afford decent housing. Additionally, abusive financial practices that hinder the acquisition of wealth necessary to own a home further exacerbates the situation. The soaring number of higher-priced loans along the Border further strains family sustainability along the Border, as well as rising food and gas prices.

A Growing Population Strains Affordable Housing Resources

According to the U.S. Census Bureau, Texas' 43 Border counties added more than 700,000 residents between 1990 and 2000. Between 2000 and 2007, these counties added more than a half million additional residents, for a total population of more than 4.65 million in 2007. If current growth patterns continue, the region's population is projected to increase to more than 6.3 million by 2030, an increase of more than 50 percent from the population counted at the 2000 census.[1] Yet, the supply of affordable housing has not kept pace with that growth. As a result, a large number of families in today's Border region find they cannot afford the cost of a decent home.

There are six large population centers at the border, centered in the cities of El Paso, Del Rio, Eagle Pass, Laredo, McAllen and Brownsville. The combined population of these six areas in 2007 was 2.2 million people—almost 10 percent of the total population of the state of Texas. As the table *Population Changes in the Border Counties* 2000-2007 shows, more than two million people reside in just six of the 43 Border region counties in 2007. The growth rate in these counties as a group was faster than the growth of the state's population as a whole. Recently, among all of the principal border cities, the growth of El Paso has been slowest, but that is likely to change in the next decade, as the Base Realignment and Closure initiative at Ft. Bliss is expected to increase the area's population by 75,000 persons or more.

Population Change in Border Counties 2000-2007

County	Principal City	Population in		Percent Change 2000 to 2007
		2000	2007	
El Paso	El Paso	679,622	734,669	8.1
Hidalgo	McAllen	569,463	710,514	24.8
Cameron	Brownsville	335,227	387,210	15.5
Webb	Laredo	193,117	233,152	20.7
Starr	Rio Grande City	53,597	61,833	15.4
Maverick	Del Rio	47,297	51,656	9.2
Total		1,878,323	2,179,034	16.0

All 43 border counties		4,126,060	4,653,627	12.8
State of Texas		20,851,799	23,904,380	14.6

Source: U.S. Bureau of the Census; Texas State Data Center

Moreover, when considering the population influence of sister Border communities in Mexico, the population explosion is even more evident. Since 1990, the combined populations of El Paso-Juarez grew by 46 percent, Laredo-Nuevo Laredo by 65 percent, and the McAllen-Reynosa area by 57 percent.[2] The number of Texas households has increased by a million between 2000 and 2006 as a result of population growth, from 8.2 million to 9.2 million. Of these households, nearly 1.7 million are in one of the 43 border region counties.[3]

While the population has exploded and the number of households has increased, the availability of affordable housing has not kept pace. Compounding the problem is the fact that U.S. households have not experienced equal or even similar income gains in recent years. In 2006, after adjusting for inflation, average pre-tax incomes for the top 1 percent of households jumped by about $60,000 (5.8 percent) whereas the average pre-tax incomes for the bottom 90 percent only increased by $430 (1.4 percent)—the largest income gap in the U.S. since 1928.[4] In addition, the income share of the top one-tenth of 1 percent increased from 6.5 percent in 2002 to 9.1 percent in 2006.[5] Statewide, the income share of the lowest quintile was 3.3 percent and 50.8 percent for the highest quintile in 2006.[6] Such income gaps further emphasize the need for affordable housing options.

Housing problems fall most heavily on those households in the bottom quarter of the income distribution (earning $23,000 or less); in 2005 low-income households accounted for 78 percent of the households that paid more than 50 percent of their income on housing costs.[7] Even families in households with incomes well above the poverty line often struggle to find housing that meets their needs at costs they can afford. The number of lower middle-income households (earning $23,000 to $45,000) spending more than half their income on housing costs increased to 12 percent of owners and 6 percent of renters.[8]

Additionally, the already scarce supply of smaller, less-costly housing is shrinking, particularly among two- to four-unit apartment buildings. Regulatory and environmental constraints on land are driving up land costs in and around the nation's metropolitan areas, limiting development of affordable housing. Restrictive regulations and public resistance to high-density development make it difficult to replace or add lower-cost units. Prospects for additional income supports or housing subsidies are equally bleak. As the federal deficit balloons, the calls to cut spending on social and housing programs are growing even as the demand for and costs of these programs continues to escalate. Thus, in the Texas Border Region, population growth demands an increase in affordable housing, but regulatory and social constraints hinder its development, creating a crisis.

Poverty and the Housing Crisis

Poverty is strongly related to housing problems, including both substandard housing and excessive housing cost. Families near and below the poverty level simply cannot pay the costs of decent housing in the private market. Moreover, in Texas, there is less than one subsidized housing unit for every five qualified families, leading families to either pay an excessive amount of their income for housing or live in substandard or overcrowded housing.

The effects of the housing crisis on the Border are even graver, where 23 percent of households had incomes at or below poverty in 2006, compared to 14 percent statewide. The 23 percent of households in poverty in the Border counties in 2006 is an increase from 21 percent in 2000, an increase that is reflected in each of the largest metropolitan counties on the Border. See the chart below.

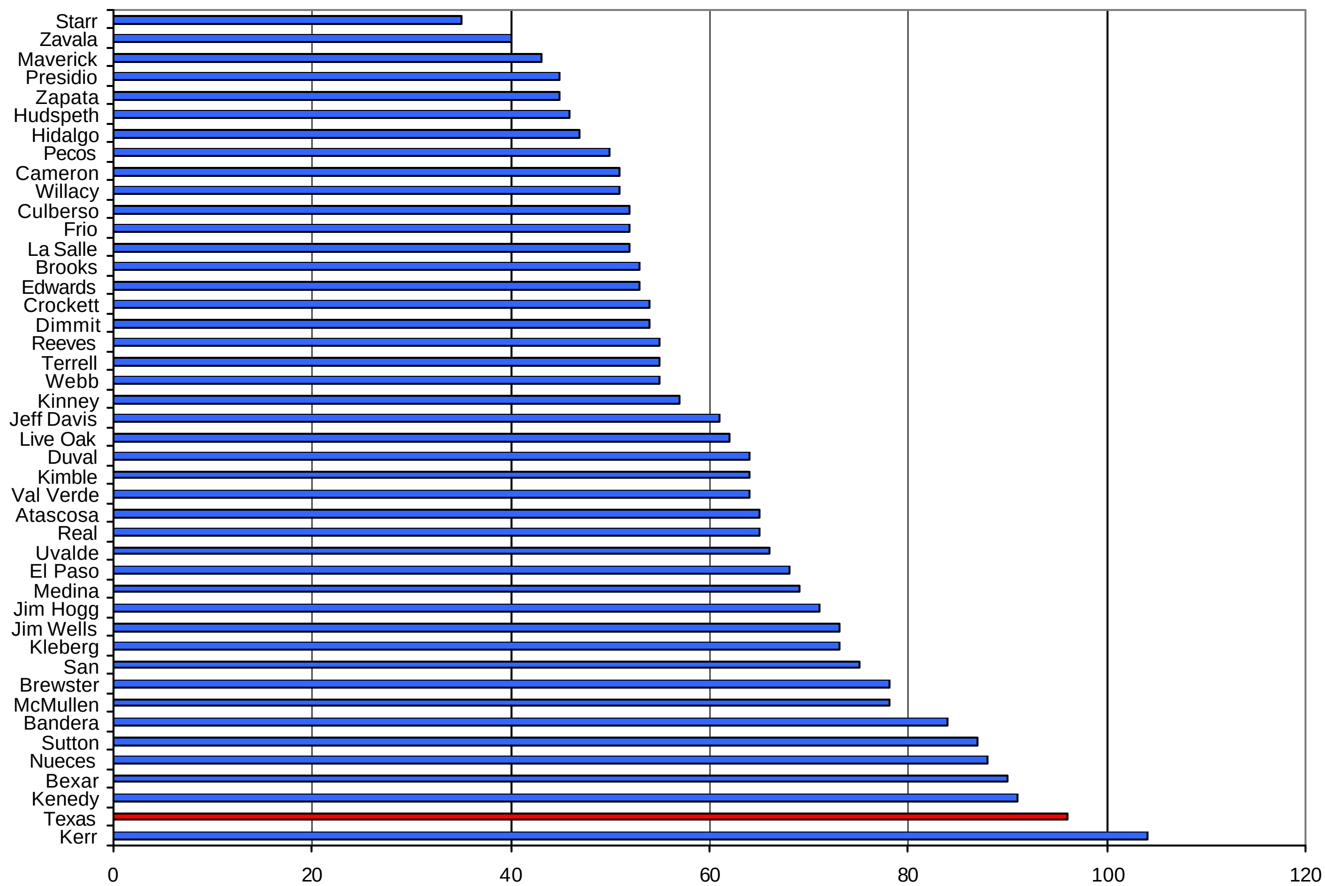
Increases in Household Poverty in Metropolitan Border Counties, 2000 to 2006

Core Metropolitan Counties Adjacent to Mexico Border	Number of Households in Poverty		Percent of Households in Poverty	
	1999	2005/6	1999	2005/6
Cameron County	28,484	37,725	29%	33%
El Paso County	45,267	58,452	22%	25%
Hidalgo County	49,950	68,110	32%	34%
Webb County	14,235	17,499	28%	29%

Source: U.S. Bureau of the Census, 2000 Census of Population; 2006 American Community Survey

In fact, Texas' entire Border Region is plagued by poverty with a per capita income far below the national average, and a marked lack of affordable housing exacerbates an already tenuous economic environment. For decades, per capita income along the Texas-Mexico Border has plummeted so low that in certain areas of the Border it is now the lowest in the nation, ranging from 35 percent of the U.S. per capita income in Starr County, compared with a state average of 96 percent. Per capita income in 42 of the 43 border region counties was below the State average of $35,166 in 2006.[9] In fact, seven Border counties had an average per capita income that was less than 50 percent of the state average. Millions of Texans were living on less than $15,000 a year in 2006. With the average cost of housing totaling over $7,000 a year, those Border residents struggling to break the poverty cycle are greatly hindered.[10]

Per Capita Personal Income as Percentage of United States Per Capita Income, 2006



Source: U.S. Bureau of Economic Analysis, Regional Economic Accounts, Table CA1

Poor Housing Conditions

Substandard housing abounds across Texas. From the older neighborhoods of big cities and small towns to the fast growing colonias— subdivisions in unincorporated areas within 150 miles of the Border—communities contain dilapidated, deteriorating housing. Unfortunately, this is often the only affordable housing available to low-income families. "Worst case housing needs" are defined by the U.S. Department of Housing & Urban Development as those families who spend more than one-half of their income on housing or live in severely inadequate housing. The number of Texans with worst-case housing needs reached an all time high of more than 650,000 households, and 169,400 households in Texas lacked complete plumbing or kitchen facilities in 2006, including more than 74,000 in the Border region (U.S. Bureau of the Census, 2006 American Community Survey).

Due to the high-level of poverty in the Border Region, colonias flourish along the 1,248 mile stretch from Cameron County to El Paso County. Beginning in the 1950s, colonia developers sold property to low-income families with little or no infrastructure so that residents could build their homes piecemeal with whatever materials they could find or afford. As a result, the more than 1,400 colonias that line the Border suffer from faulty construction, open sewage, lack of sanitary water, dusty unpaved roads, and no plumbing.

Over the past decade, Border counties experienced some progress in eliminating the worst housing conditions. The table *Units Lacking Plumbing Facilities* shows that the number of houses that lacked complete plumbing facilities in the four core metropolitan counties adjacent to the border was 9,410 in 2006. Many houses that have plumbing facilities in place may still lack access to reliable water service, as many residents do not have hookups to their houses because they cannot pass inspections to qualify, and lack the money to make the needed repairs to meet codes. As recently as June 2000, only 54 percent of the Texas colonia residents surveyed had sewer service and more than 50 percent reported having to obtain drinking water from sources other than taps.

Units Lacking Plumbing Facilities

Metropolitan County Adjacent to Mexico Border	Units Lacking Plumbing, 2006
Cameron	2,457
El Paso	1,354
Hidalgo	4,810
Webb	789
TOTAL	9,410

Source: US Bureau of the Census, American Community Survey, 2006

The state has taken steps to address the conditions of colonias, authorizing grants and loans for infrastructure projects; and in 1995, legislation was passed to prohibit developers from selling lots without water and wastewater treatment services. Unfortunately, many regions containing these colonias still lack the staffing, political will, and other resources to enforce this law.

Impact of Poverty on Children

A 2007 report by the Center for Public Policy Priorities, reported that children residing along the Texas-Mexico border are more likely to live in families experiencing economic insecurity.[11] As the chart *Border Children Ages 5-17 Living in Families in Poverty (2005)* demonstrates, one-third to one-half of children along the border live in poverty. In 2006, 49 percent of Texas' children were living in low-income families (income below 200 percent of the poverty level) and 61 percent were living in Low-Income families that spend more than 30 percent of their income on housing. Housing impacts the quality of living of a family and it greatly determines whether a child will have access to good schools and after-school programs, safe streets and playgrounds, and positive role models.[12] According to an April 2008 study published in *Health Affairs*, African American and Hispanic children are 12 and 14.6 times more likely than white children to live in poor families and in high-poverty neighborhoods. The greatest disparities among white and Hispanic children were found in McAllen, El Paso, and San Antonio, Texas.[13]

Border Children Ages 5-17 Living in Families in Poverty (2005)

Counties	Ages 5-17 in Families in Poverty	Percentage
El Paso	54,163	35.2
Cameron	43,288	51.4
Hidalgo	79,000	50.3
Starr	7,553	51.2
Webb	21,015	39.6
Maverick	4,645	36.5
Texas	983,654	22.6

The U.S. Census Bureau, http://www.census.gov/cgi-bin/saipe/saipe.cgi, Accessed on July 17, 2008.

Housing Affordability

Affordable housing is scarce along the Border. A statewide shortage of housing units exists, resulting in families spending a greater percentage of their income on housing costs. Households who spend more than 30 percent of their income on housing are considered to be living in unaffordable housing, and those who spend more than 50 percent shoulder severe housing cost burdens. In 2005, the number of U.S. households severely burdened by housing costs jumped by 1.2 million to a total of 17 million.[14]

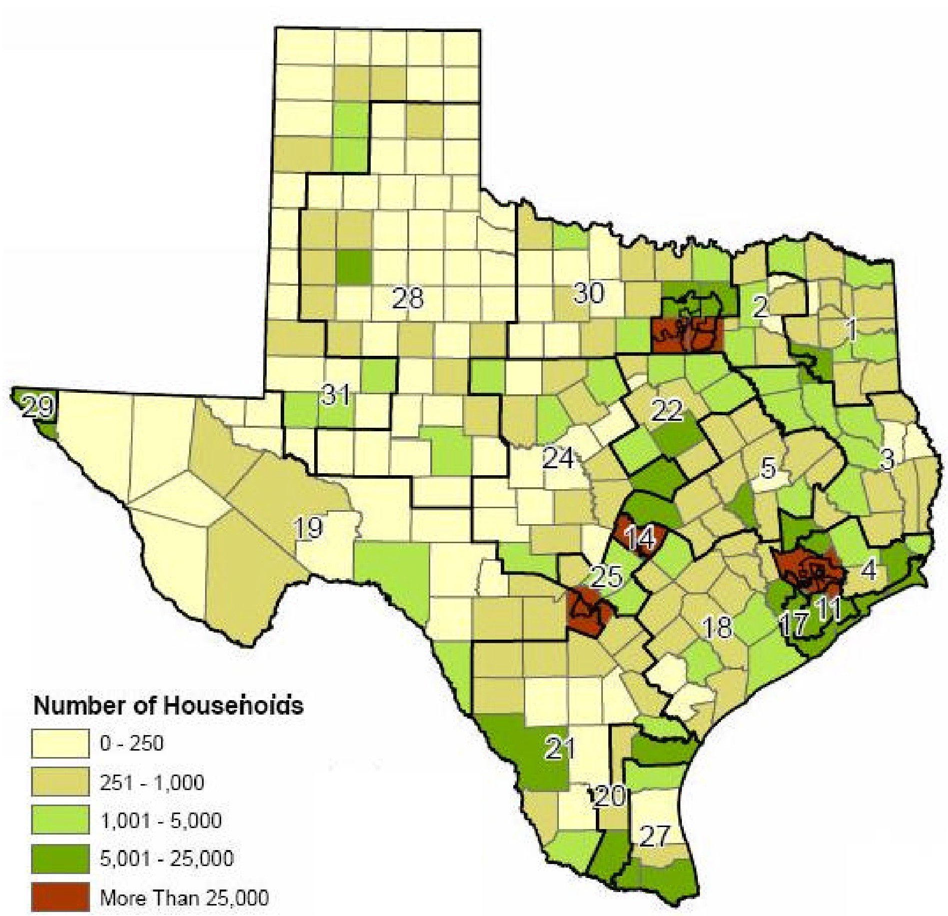
According to a mid-decade progress report by National Low Income Housing Coalition,

> the deterioration in Americans' access to affordable housing between 2001 and 2005 occurred at a time of moderate rent growth, historically low mortgage interest rates, and a general economic expansion. Yet, home prices rose significantly during this period and rents continued to increase as the effects of the economic expansion were uneven. On average, incomes of middle income Americans stagnated and real wages for low wage workers declined.[15]

The incidence of severely housing cost-burdened households from 2001 to 2005 increased by 23 percent nationwide.[16] The increase affected all income levels and both renters and owners. However, the proportion of Moderate and Upper Income households facing severe housing cost burdens remained the same at 2 percent for homeowners and 1 percent for renters. By contrast, the proportion of Extremely Low Income, Very Low Income, and Low Income households bearing severe housing cost burdens increased for both owners and renters.

In Texas, in 2005, the median housing costs as a percentage of income for Low Income households in the bottom quartile was 47 percent.[17] The share of Low Income households that were severely burdened was 46 percent. The map *Number of Households Spending More Than 50 Percent of Their Income on Housing Costs with Senate Districts* illustrates the breakdown of areas where housing affordability is particularly scarce.

Number of Households Spending More Than 50 Percent of Their Income on Housing Costs with Senate Districts



Source: Texas Legislative Council, 2000 Census

For many full-time workers across the state, the cost of rent far exceeds their budget, especially in the Border region. In Texas, the Fair Market Rent (FMR) for a two-bedroom apartment is $781. To afford this level of rent and utilities without paying more than 30% of income on housing, a household must earn $2,603 monthly or $31,242 annually.[18] The minimum wage in Texas is $5.85. Therefore, a minimum wage earner must work 103 hours per week, 52 weeks per year in order to afford the FMR of a two-bedroom apartment.[19] Or, a household must include 2.6 minimum wage earners working 40 hours per week year-round in order to make the two-bedroom apartment FMR affordable.[20] While the rent for a two-bedroom apartment is lower in the Border region, the rent burden is still significant given that more than 400,000 households along the Border have incomes of less than $20,000.[21]

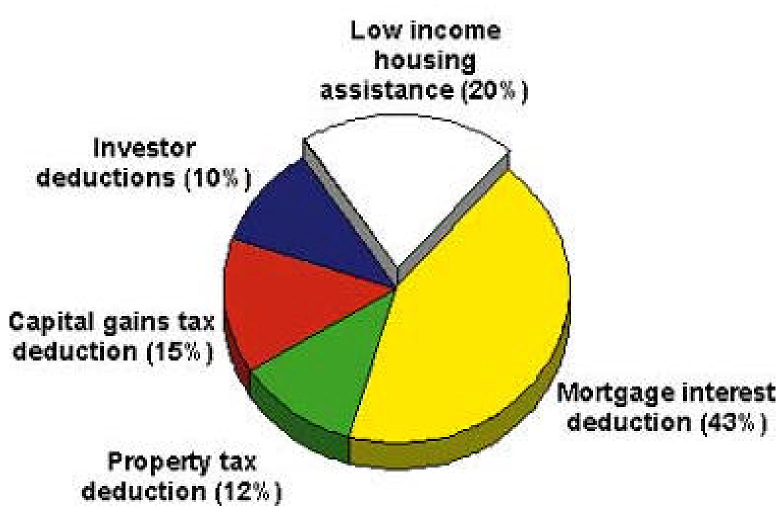
According to the Texas Low Income Housing Information Service, Texas has a deficit of more than one quarter of a million housing units affordable to Extremely Low Income (ELI) households (less than 30% of state's median family income) and a deficit of 129,068 housing units affordable to Very Low Income households (31%-50% of state's median family income).[22] The occupation of low income housing units by households that are not low income further reduces the number of affordable and available units. The table below demonstrates that the shortage of affordable and available housing units for ELI households is 436,978. Statewide, there are only 33 affordable and available units for every 100 ELI Texas households.

Texas			
Household income level	Deficit of affordable units	Deficit of affordable and available units	Affordable and available units per 100 households
Extremely Low Income (<30% of median)	261,336	436,978	33
Very Low Income (31%- 50% of median)	129,068	454,573	60

Source: Texas Low Income Housing Information Service, Tabulations of 2005 US Census Bureau American Community Survey PUMS

Low incomes, high poverty rates and few affordable housing options create a great need for subsidized housing. According to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development, five out of six low income Texas families who qualify for government housing assistance do not receive it because of the shortage of subsidized housing in Texas.[23] Moreover, as the graph *Federal Tax Expenditures for Housing* shows, only 20 cents of every dollar of federal tax expenditures for housing is spent on low-income housing assistance. The other 80 percent of federal housing dollars are dedicated to reimbursing taxpayers in all tax brackets who meet the criteria to claim income tax deductions. Finally, Texas spends a paltry $3 million of state general revenue funds for low-income housing. In contrast, other states, which have dedicated sources of revenue, earmark many more millions. For example, Ohio has a Housing Trust Fund of $30 million and Florida has a fund of about $350 million. Increasing the availability of subsidized housing units for low income Texans is essential in ensuring we have healthy productive families.

Federal Tax Expenditures for Housing



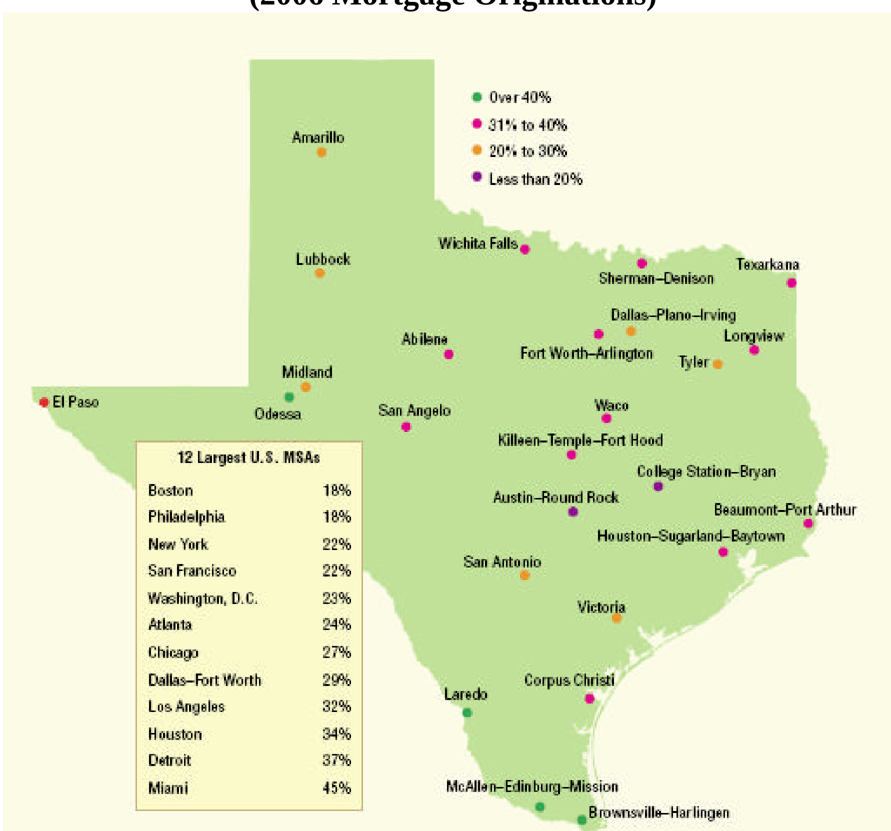
Source: Texas Low Income Housing Information Service.

Mortgage Crisis

Low interest rates, mortgage innovations, and home price appreciation helped push the national homeownership rate up to 68.9 percent in 2005, but it has since decreased by 0.1 to 68.8.[24] Increased market demand from both investors and homeowners led to a growing number of new homes. However, unlike other states, Texas did not benefit from rapidly rising home prices, and Texans gained relatively little equity on their homes, giving them little financial cushion when the housing boom went bust in 2006.[25] The housing downturn was a result of softening home sales and higher mortgage interest rates. In Texas, the downturn had the greatest effect on low-income Border counties; these owners were often the targets of high-interest, predatory loans.

The percentage of higher-priced mortgages in Texas has been above average compared with other states.[26] In Texas' metropolitan statistical areas (MSAs), 30 percent of loans originating in 2006 were considered higher-priced loans. Texas, as a whole, has a higher percentage of higher-priced loans than most of the 12 largest U.S. MSAs (see map). Over 40 percent of the loans originating in 2006 in Laredo, McAllen-Edinburg-Mission, and Brownsville-Harlingen were higher-priced loans. The map below demonstrates that higher-priced loans were heavily issued along the Texas-Mexico Border.

Percent of Higher Priced Loans by Market
(2006 Mortgage Originations)



Source: Federal Reserve Bank of Dallas, *Southwest Economy*, Issue 1, January/February 2008, http://www.dallasfed.org/research/swe/2008/swe0801.pdf.

The high number of these higher-priced loans along the Border exacerbate already existing housing affordability issues. The result is an increase in the share of low-income homeowners spending heavily to service debt and an increase in the number of households simply unable to pay their monthly housing costs. Consequently, in the third quarter of 2007, home foreclosures and delinquencies rose statewide. Home foreclosures increased to 0.6 percent, just slightly below the U.S. rate of 0.8 percent, and delinquencies for all loans 90 days past due were 1.6 percent, which was higher than the U.S. rate of 1.3 percent.[27] Mortgage debt in the Border region is compounded by the low per capita income levels as well as high food and energy costs.

Nationwide, the foreclosure crisis is concentrated in low-income and minority communities. According to data gathered through the Home Mortgage Disclosure Act, subprime loans accounted for 45 percent of all home loans originated in low-income, predominantly minority communities in 2006.[28] By comparison, the share of subprime loans in high-income, predominately white areas was 15 percent. As a result, low-income and minority communities are much more likely to experience high rates of foreclosure as well as the destabilizing effects associated with foreclosure (*e.g.,* depressed property values, decreased local property tax revenues, and increased costs of law enforcement and other public services).

Issues Affecting Affordable Housing Availability

There are other pertinent factors that affect affordable housing availability besides per capita income and poverty rates. Confusing and overlapping jurisdictional obligations often leave gaps in services and leave communities without adequate services. Additionally, private lenders contribute to the problem by viewing housing funding through a "strictly business" lens which limits access to capital for mortgages for many middle- and low-income families. Additionally, in low income communities, unscrupulous lenders often target vulnerable borrowers.

Confusing Jurisdictions - Who Helps?

Taking into account the continual downward trend in housing affordability, the public and private sectors are trying to alleviate the housing problem in Texas and throughout the United States through various programs. The Texas Department of Housing and Community Affairs (TDHCA), the Department of Housing and Urban Development (HUD), the Fannie Mae Corporation, the Freddie Mac Corporation, and other various department programs are involved in this effort.

TDHCA implements two programs named Home Investment Partnerships Program (HOME) and Housing Trust Fund (HTF). These programs focus on providing decent and low-cost housing for households below the low-income threshold to remedy homelessness, deteriorating housing stock, and excessive rent burdens. HOME also assists in building a foundation for relationships between state and local governments and private and nonprofit organizations to further help Texas' housing needs. TDHCA employs a third program through the Office of Colonia Initiatives (OCI) which concentrates on the Texas-Mexico Border Region. The OCI aims to help individuals who live in colonias, and who have incomes at or below 60 percent of the annual median family income (AMFI). Similarly, Low Income Housing Tax Credits (LIHTC) exist to benefit very low-income households which are at or below 60 AMFI.

TDHCA also engages in multiple housing finance programs for Texans from moderate to very low incomes. The first of these programs is the Multifamily Bond Program and the First Time Homebuyer Program, which helps moderate, low, and very low income households to finance housing and to purchase first homes, respectively. The Down Payment Assistance Program aids households at or below 80 percent AMFI for subordinate lien financing and households at or below 60 percent AMFI for grants. Additionally, TDHCA provides the Texas Statewide Homebuyer Education Program with counseling services for Texans with various needs.

HUD serves state and local governments by allocating a large portion of their budget to implement various housing and community development programs. HUD provides assistance to single-family home occupants and to multifamily housing occupants through the Single Family and Multi-family Housing Mortgage Insurance Programs. The Department also offers a Community Development Block Grant (CDBG) program to facilitate various neighborhood and community revitalization projects. Section 8 Housing Assistance Payments, Section 8 Family Unification Program (Section 8-FUP), and Section 8 Family Self-Sufficiency Program Coordinators are all various types of grants which help alleviate living expenses. Various other grants include the formula grants Public Housing Operating Subsidy and Public Housing Modernization - Comprehensive Grants Program (CGP) and competitive grants such as the HOPE VI - Revitalization Grants and Comprehensive Improvement Assistance Program (CIAP). HUD assists in housing for Native Americans such as the Indian Housing Block Grants (IHBG) and the Indian Community Development Block Grant Program (ICDBG). Grants for people with special needs are realized through the Supportive Housing for the Elderly (Section 202), the Supportive Housing for Persons with Disabilities (Section 811), the Section 8 Mainstream Program, the Section 8 Designated Housing, Elderly/Disabled Service Coordinator Funds (EDSCF), and Housing Opportunities for Persons with AIDS (HOPWA).

The third entity which plays a major role in increasing the availability and affordability of housing for low to middle-income Americans is the Fannie Mae Corporation. This corporation assists low to middle-income owners and renters with purchasing mortgages with Single Family Mortgage Products, the Multifamily Mortgage Products, Affordable and Special Needs Housing Product, and Community Development Lending. Low and moderate income households also benefit from the Single Family Public Finance program which assists in the purchase of tax exempt revenue bonds and the Investment Tools Program.

Another corporation created by Congress to provide housing aid is the Freddie Mac Corporation. This organization ultimately provides renters and homeowners with improved access to home financing and less expensive housing costs. The Freddie Mac Corporation facilitates mortgage purchasing benefiting low to moderate-income single family owner occupants and/or low to moderate renters in the Affordable Lending and Community Development Lending Programs.

The public sector also provides assistance with loans and grants through a range of other departments. The Office of Rural Community Affairs and U.S. Department of Agriculture offer different community development programs which consist of loans and project grants for housing in rural and farm related areas. The U.S. Department of Veterans Affairs also offers veteran housing programs by providing grants and loans for veterans in need of housing assistance. The Texas General Land Office (GLO), the Texas Department on Aging, the Texas Department of Mental Health and Mental Retardation, and the Texas Department of Human Services all provide loans, grants, and financial or other services which help residents obtain or retain affordable housing. Technical assistance and information about all forms of grants are available through the State Grants Team and the Office of the Attorney General, which assists in dispute resolution concerning housing for Texas residents.

The table *Affordable Housing Funding Distribution Between Border and Non-Border Counties, 2003-2007* provides a snapshot of affordable housing funds awarded by TDHCA and other state and federal expenditures for Border and non-Border counties.

Affordable Housing Funding Distribution Between Border and Non-Border Counties, 2003-2007

	Border Counties	Non-Border Counties	Total
TDHCA Affordable Housing Awards	$187,276,296	$1,360,925,088	$1,548,201,384
	12%	*88%*	
Other State and Federal Affordable Housing Expenditures	$592,705,950	$3,132,722,177	$3,725,428,127
	16%	*84%*	
All Funds	$779,982,246	$4,493,647,265	$5,273,629,511
	15%	*85%*	

	% of Population	% Total Funds	% TDHCA Funds	% Other Funds
Border	17%	15%	12%	16%
Non-Border	83%	85%	88%	84%

**Reflects data on TDHCA awards from SFY 2003-2007 and non-TDHCA affordable housing expenditures by federal and state entities from 2003-2007 as used in TDHCA Regional Allocation Formula (RAF) for those years.*

Although the public and private sectors have taken strides to improve the affordable housing issue, more assistance is still needed. Problems such as predatory lending and high rates of sub-prime lending hinder the progress achieved by these aid programs.

Home Refinance Loans: Subprime lenders

The decline in lower cost rental units places increasing pressure on lower wage workers to resort to paying excessive housing costs. Poverty or lower incomes may drive individuals to seek home loans through non-traditional, more expensive avenues. In other words, when a family cannot afford to have adequate plumbing and electricity or has been forced, because of limited access to resources, to build on a plot of land that has not been surveyed, that person will not get homeowner's insurance or title insurance, will not have access to any affordable housing financing packages offered through Fannie Mae, and will be relegated to the expensive and oppressive subprime lending market. A subprime mortgage loan is a loan that has a higher interest rate and fee than a prime loan. According to Fannie Mae, subprime mortgages are routinely three to four percentage points or more higher than a comparable prime market loan.

There are legitimate reasons for subprime loans. For example, a subprime, higher interest loan is the market's way of providing credit to borrowers who pose a greater risk of default. However, targeting households or referring them to the subprime market in cases where applicants could have reasonably qualified for prime market loans undermines the long-term asset-building potential of those households. Each additional interest point on a home mortgage means tens of thousands of dollars on the total cost of a mortgage over the life of the loan. These higher payments reduce funds families have for education or other critical living expenses. The textbox *Impact of Subprime Borrowing on a Typical Household* gives an example of a subprime loan.

Impact of Subprime Borrowing on a Typical Household

A home priced at $85,000, with a five percent down payment will require a mortgage of slightly under $81,000. For every percentage point of interest over a base rate of eight percent interest on a 30 year loan, the borrower will pay $687 per year more. Over the 30 year term of this nine percent loan, the extra amount paid reaches $21,000.

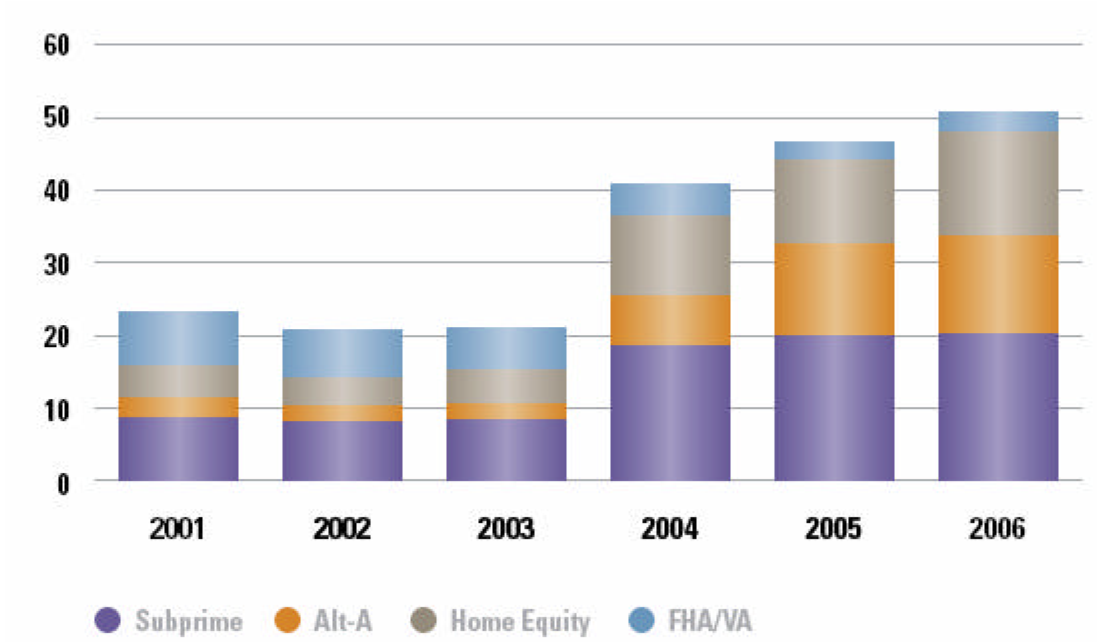
If the same household obtained a loan at six percent, they would have $57,572 for other discretionary purposes over the life of the loan. A loan with a 12 percent rate, by contrast, would require payment of an additional $85,712 over the 30 year period. And investing the difference in payments in a savings account each month would yield considerably more over a 30 year period.

Source: Federal National Mortgage Association Explanation

Subprime loans are risky loans, not simply because the borrowers of these loans may have weaker credit, but because they include features that increase the risk of foreclosure. Such features include adjustable interest rates, balloon payments, prepayment penalties, and loans with limited documentation of borrowers' loan qualifications. In 2006, the most common type of subprime loan was an adjustable-rate mortgage (ARM) called a "2/28" that features semi-annual interest rate adjustments after a two-year fixed-rate period.[29] The initial fixed rate is often a discounted or "teaser" rate, so the rate after the adjustment can lead to a significantly higher payment.

During the housing boom in the first half of the decade many mortgage lenders who were eager to increase their market share increased the number of loans which they supplied to borrowers with tarnished credit. Nationwide, subprime lending soared from near zero in the early 1990s to 8.6 percent of originations in 2001 and 20.1 percent in 2006.[30] The chart "Surge in Subprime Lending" demonstrates the growth of subprime lending at the end of 2003, when favorable housing conditions were present like low interest rates, and high home price appreciations. Additionally, there was an increase in the share of Alt-A loans, which fall between prime and subprime loans on the risk spectrum, while the share of Federal Housing Administration (FHA) loans decreased.

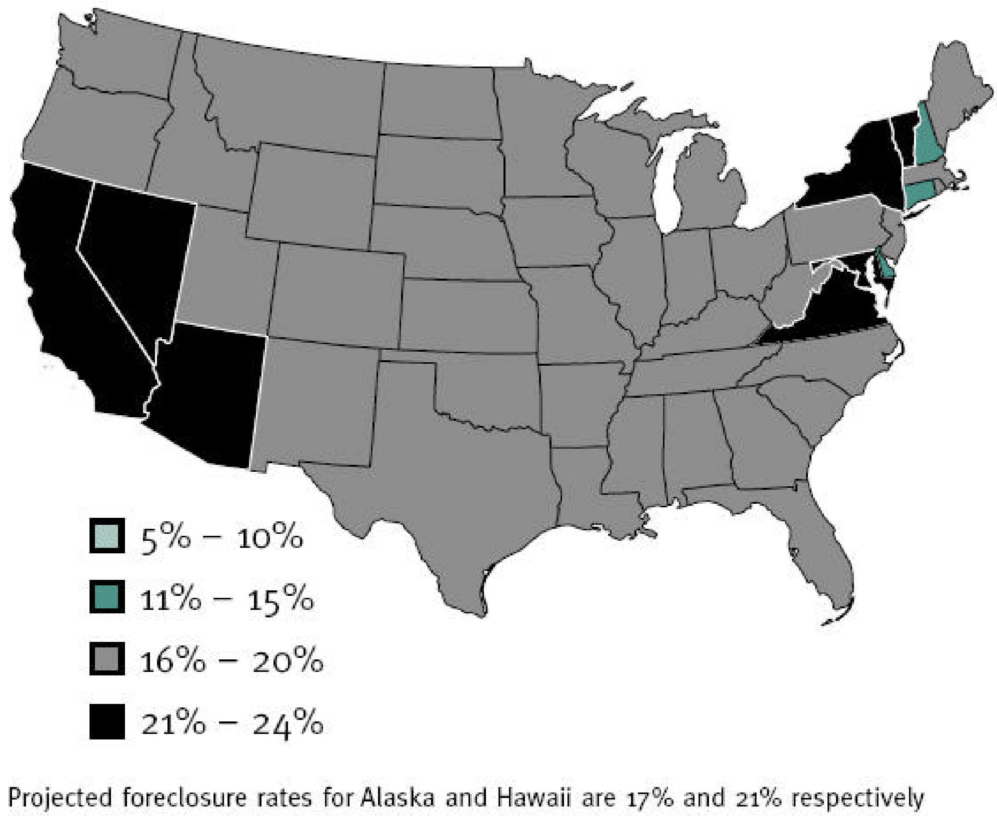
Surge in Subprime Lending
Share of mortgage origination (percent)



Source: Joint Center for Housing Studies Harvard University, *State of the Nation's Housing 2007*, Figure 19, http://www.jchs.harvard.edu/publications/markets/son2007/son2007.pdf.

It's projected that one in every five subprime loans made in 2006 will end in foreclosures, and 2.2 million U.S. households will lose their home due to subprime loans originated between 1998 and 2006.[31] The map on the next page shows the projected state foreclosure rates for loans originated in 2006. In August 2007, Texas was fourth in total foreclosure filings, reporting more than 10,000 foreclosures for the month.[32] In addition, Texas had the ninth highest foreclosure rate, with one foreclosure for every 532 households.[33] In the Border region high percentages of subprime home mortgage loans puts many households at risk of losing their home. In three metro areas along the Border: Laredo, McAllen, and El Paso the percent of high-cost home purchase loans originated in 2006 was above 40 percent.[34]

Projected State Foreclosure Rates for Subprime Loans Originated in 2006



Source: Center for Responsible Lending, http://www.responsiblelending.org/pdfs/FC-paper-12-19-new-cover-1.pdf.

The Border region is plagued by subprime lending. A 2007 study that examined the extent of high-cost lending for 172 metropolitan areas provides evidence that the large Border metro areas are especially inundated with high-cost refinance loans.[35] The table *Metropolitan Area Ranking by Incidence of High-Cost Refinance Loans, 2006* shows that out of the 172 metro areas studied, seven out of the 12 metro areas with the largest percentages of high-cost refinance loans are in Texas; four of the top five are in Texas Border metro areas. As a result, the Texas Border region will face the largest overall difficulties when mortgage interest rates reset on high-cost loans with adjustable rates.

Metropolitan Area Ranking by Incidence of High-Cost Refinance Loans, 2006

Rank	Metropolitan Area	State	Total Refinance Loans	# High Cost Loans	% High Cost
1	Brownsville-Harlingen	TX	1396	885	63.4%
2	El Paso	TX	3941	2320	58.9%
2	Laredo	TX	518	305	58.9%
4	Jackson	MS	2027	1191	58.8%
5	McAllen-Edinburg-Mission	TX	2416	1403	58.1%
6	Lubbock	TX	842	480	57.0%
7	Wichita Falls	TX	458	256	55.9%
8	Evansville IN	IN	1238	689	55.7%
9	Memphis	TN	8034	4261	53.0%
10	Davenport-Moline-Rock Island	IA	2231	1169	52.4%
11	Corpus Christi	TX	1600	835	52.2%
12	Erie	PA	1060	547	51.6%

Source: ACORN, http://www.acorn.org/fileadmin/HMDA/2007/HMDAreport2007.pdf

Furthermore, the same study showed that metro areas with a high incidence of high-cost loans to Latinos in Texas were not only areas that included border cities; 76.6 percent of refinance loans to Latinos in the Lubbock metro area were high-cost refinance loans. Yet, the table *Metropolitan Area Ranking by Incidence of High-Cost Refinancing Lending to Latinos, 2006* shows that more than half of all the refinance loans to Latinos in the largest metro areas along the Border are subprime.

Metropolitan Area Ranking by Incidence of High-Cost Refinance Loans to Latinos, 2006

Rank	Metropolitan Area	State	Total # Loans to Latinos	# High Loans to Latinos	Latino % High Cost
1	South Bend-Mishawaka	IN	71	56	78.9%
2	Lubbock	TX	201	154	76.6%
3	West Palm Beach-Boca Raton-Boynton Beach	FL	91	65	71.4%
4	Brownsville-Harlingen	TX	1101	766	69.6%
5	Corpus Christi	TX	669	458	68.5%
6	Buffalo-Niagara Falls	NY	53	35	66.0%
7	Davenport-Moline-Rock Island	IA	76	49	64.5%
8	El Paso	TX	2856	1816	63.6%
9	Abilene	TX	60	38	63.3%
10	Norwich-New London	CT	118	73	61.9%
11	Omaha-Council Bluffs	NE	233	144	61.8%
12	San Antonio	TX	3415	2095	61.3%
13	McAllen-Edinburg-Mission	TX	1990	1211	60.9%
14	Laredo	TX	438	264	60.3%

Predatory Lending

While not all subprime lenders are predatory, just about all predatory loans are subprime, and the subprime industry is a fertile breeding ground for abusive practices. Subprime loans are properly given to people who are unable to obtain a conventional prime loan at the standard bank rate because of credit problems or other circumstances. It is appropriate for such loans to have higher interest rates to compensate for the potentially greater risk that these borrowers represent, and such risk-based pricing can fulfill an important market need. Predatory lending occurs when loan terms or conditions become abusive or when borrowers who should qualify for credit on better terms are targeted instead for higher cost loans.

Predatory lenders impose unfair and abusive loan terms on borrowers, often through aggressive sales tactic and/or taking advantage of borrowers' lack of understanding of extremely complicated transactions. Predatory loans turn the dream of homeownership into a nightmare and in the worst instances end in foreclosure. The damage done by predatory lenders is increased by the fact that predatory loans are made in such concentrated volume in poor and minority neighborhoods where better loans are not readily available, and the loss of equity, and foreclosure can devastate already fragile communities. In fact, predatory lending threatens to reverse the progress that has been made in increasing homeownership rates among minority and lower income families.

Targeting Minority Borrowers

The rise in subprime and predatory lending has been most dramatic in minority communities. Half of all refinance loans made in predominantly black neighborhoods are subprime, compared to just nine percent in predominantly white neighborhoods. Subprime lending, with its higher prices and associated abuses, is becoming the dominant form of lending in minority communities. On the Border, the greatest volume of subprime lending today is in home refinance loans, although a growing number are home purchase loans. The bulk of these loans come from colonia developers. Residents of colonias increasingly use subprime home refinance loans to finance completion of their homes. Although home loans to minorities are growing at double-digit rates, Blacks and Hispanics are still about twice as likely as non-Hispanic whites to be rejected when they apply for a mortgage.[36]

While creditworthiness may be a consideration in the use of subprime lenders in these cities, evidence has emerged that Hispanic communities are actually being targeted by subprime and predatory lenders.

In one instance, a major mortgage lender, Citigroup and its subsidiary CitiFinancial were accused of engaging in systematic and widespread deceptive and abusive practices. In 2002, Citigroup settled with the Federal Trade Commission for over $200 million. Allegations against Citigroup included targeting low-income communities, mainly Black and Hispanic, with abusive sales tactics. In another instance, in a lawsuit against Household International, Inc., a nationwide mortgage lender, the court ordered Household to "provide Spanish language loan documents in all branch offices that are certified by Household to conduct Spanish language transactions… Household shall also make available a one-page loan disclosure of key terms in Spanish in certified branch offices to those Borrowers whose primary language is Spanish."[37] According to anecdotal evidence, Household International, Inc. was engaged in predatory lending practices that preyed on borrowers with limited English proficiency by purposefully developing loan materials that were confusing to Spanish readers and speakers. In general, lenders can often target Spanish speaking borrowers with little detection, as this community is easily marginalized.

Conclusion

Housing is one of the strongest indicators of quality of life in our country and building equity in one=s home is one of the most important asset building mechanisms available to the average family. When a family does not have access to any affordable housing financing packages and is relegated to the expensive and oppressive subprime lending market, either because of a poor credit history or substandard housing conditions, the family will pay a greater proportion of its income on housing. As a result, a family's ability to build equity and increase its wealth is hindered. Throughout the Border region, the lack of affordable, decent housing and the limited ability to access the prime lending market has left many Hispanics struggling to build wealth and break the cycle of poverty. Public policy in Texas should focus on removing these barriers, and providing equal opportunity for all Texans.

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