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Austin might escape worst of collapse

Subprime lending has not played a large role in the Central Texas market, experts say.

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Will Austin dodge the subprime bullet? Or will the industry's woes rattle the region's real estate market?

The subprime crisis is already being felt here as some prospective home buyers with less-than-stellar credit find it harder to get a mortgage. Industry experts say builders will put up fewer entry-level homes in Central Texas as the pool of buyers shrinks. There will be some effect on the resale market.

Major mortgage lenders are pulling back on or eliminating the loans that did not require applicants to make down payments. Those allowed thousands of people to purchase homes for the first time.

But the effect on the Austin area, with a robust job market and strong economy, is likely to be minimal, compared with parts of the country where subprime loans are more common, economists and real estate experts say.

By the end of 2006, 20 percent of active mortgages in the Bakersfield, Calif., area were subprime, according to San Francisco-based First American LoanPerformance. In Texas, McAllen had the highest rate, 26 percent. The national average is 14.7 percent.

In Central Texas, however, the rate was 8.6 percent, a slight decrease from a year earlier. Among large Texas cities, only Houston's was above the national average.

"Austin's exposure to this whole subprime collapse is lower than the national" average, said Rakesh Shankar, senior economist at Moody's Economy.com. "Subprime has not played a big role in new lending in Austin."

On the national front, some economists say they think the subprime troubles could push the economy into a recession later this year.

Moody's is not forecasting a recession, Shankar said. However, it is keeping a close eye on the impact on the equity market, as well as consumer confidence.

"We are definitely looking for a tentative year for housing spending," he said. "What helps Austin is that its economy is doing very well. That will help put the floor under any weakness."

Lenders "are going to look for a better credit score and more income, and that's going to hurt the housing market," said Greg Hallman, a lecturer at the University of Texas McCombs School of Business. "The degree to which it's going to hurt — that's what we don't know yet."

Whatever the effect, "we are going to feel that in Austin," Hallman said. "We are going to feel that all over."

As lenders impose tougher requirements to qualify for a loan, the impact will be greater for first-time buyers, people with lower incomes and those who have spotty credit histories and credit scores below 660, which is generally the threshold to qualify for a standard-rate mortgage. The days of aggressive zero-down financing offers and loan approvals for those with credit scores in the 500 range — a high-risk score — are gone for now.

Locally, mortgage brokers and real estate agents alike are starting to see some of the signs.

Gary Solka, a consultant at Milestone Mortgage, said subprime mortgage holders hoping to refinance are having trouble qualifying for a loan with a lower interest rate. Those homeowners could be in deeper trouble when their adjustable-rate loans reset to a higher figure, meaning a bigger mortgage payment, Solka said.

Paul Borman, an agent for Avalar at Steiner Ranch, said he has started turning away prospective buyers who would have qualified for a mortgage two months ago. For example, zero move-in financing for buyers with a 620 credit score will be harder to come by, Borman said. Now, those buyers are going to need a down payment.

"It's going to take buyers out of the market," he said.

As a result, the region is likely to see fewer sales of homes, new or previously owned, said Eldon Rude, director of the Austin office of real estate research firm Metrostudy.

Rude expects builders to slightly reduce the number of new homes they start in the lower price ranges, about $175,000 and below. He also expects sales of existing homes in those price ranges to slow.

So far, Austin has largely avoided what has happened in some other markets, particularly on the East and West coasts, where prices have fallen or flattened, leaving some homes purchased with subprime mortgages worth less than the loan balance.

"We, to this point, have not experienced that, and we don't anticipate that," Rude said. "If you still have your job, and your house is worth more than your mortgage, you're likely to stay in that house and continue to pay your mortgage with the possibility of building equity through price appreciation."

The Federal Reserve Bank of Dallas is watching the situation, but senior economist Pia Orrenius said the Texas economy is solid.

"We have a healthy housing market in Texas as a whole relative to the nation," Orrenius said. "Austin is a little bit of an exception — it had the biggest runup in home prices — but again, the Austin economy is very healthy, with fundamental underlying strengths that are propping up home values, and none of those are expected to change."

Nationally, home foreclosures are at a four-year high. Orrenius said that is related largely to adjustable-rate loans whose interest rates are resetting to higher levels. "There's very little movement at the state and national level in the fixed-rate mortgages on the subprime side, so this is really an adjustable-rate issue," Orrenius said.

The Austin region is the only Texas metropolitan area where foreclosures have dropped in the past year. Foreclosures for the April auctions are down by more than 10 percent in Travis, Williamson and Hays counties, according to Foreclosure Listing Service in Addison. By contrast, they're up 18 percent in Dallas.

In some cases, subprime lenders have stopped doing business as a result of cease and desist orders from regulators. Regulators at the Texas Department of Savings and Mortgage Lending are watching the situation closely, Commissioner Danny Payne said.

Payne said the subprime troubles could be the beginning of the end for risky loan products and exotic financing. He said he advises prospective home buyers to do their homework, talk to experts about the purchase and their options.

They can visit the agency's Web site for more help at www.sml.state.tx.us.

"Consumers certainly need to get expert advice," Payne said, "or take the time and effort to get educated."

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