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Dear Client:

**When you think about it, something amazing is happening to interest rates. Short-term interest rates have moved up two full percentage points in the past year. You knew that. But if you're not buying or selling a house, you may not know long-term rates have fallen. What's going on here?**

Frankly, the experts appear confounded. Some are saying **short-term rates could move above long-term rates**. In the past, this has foreshadowed a recession. While no one is predicting a recession, it simply adds to the confusion. The Chairman of the Federal Reserve Board himself says he's not sure what this means, but he's not saying the "R" word.

Meantime, **the housing market is going to reap the benefit from low long-term rates**. Mortgages dipped so low Austin set records for home sales in recent years. Also many homeowners re-financed their mortgages not once, but twice – or more. Then lenders began complaining re-fi's were drying up because there weren't that many homes left to re-finance and interest rates started to rise again.

Now look at what's happening. Mortgage rates are dropping again. The lower the interest rate, the lower the monthly payment. More people can afford more house. And **the Austin area is in an enviable position**. Home values are inching up steadily, but not dramatically. So Austin is not participating in the East Coast/West Coast housing bubble hysteria where home prices have skyrocketed out of sight so fast, many are suggesting their bubble is ready to burst.

With no bubble here, the concentration is on good value, low monthly payments or maybe a move-up to a bigger house – just as the **summer selling season shifts into high gear**. Oh yeah, increasing numbers of "east/west coasters" are sniffing around here, buying homes, hoping for an investment ride if Austin home values start climbing as they have in other parts of the country. In fact, we heard of three different California investors each buying 3 or 4 Austin homes during a weekend.

**Four factors that traditionally trigger a hot housing market are now in place in the Austin area:** 1) home values are relatively low, 2) long-term interest rates are dropping steadily, 3) there is a ready supply of money to lend and 4) employment is good again as our economy improves. However, lending policies *could* change soon. More about this in the next item.

**It's not that lending policies at financial institutions are about to change. It's not that banks are running out of money to make home loans. But home loans could soon be tougher to get.**

“Frankly, it's pretty easy to get a home loan these days” is what we told you in our 2/18/05 edition. Here's some more of what we revealed to you then: “Gone are the days when you had to pledge-your-first-born and make-payments-in-blood to get a home loan. **Some of the deals financial institutions are making these days would have led to crackdowns by regulators in the past.**” Well, the past may be turning into the present. The regulators have signaled they are going to more closely scrutinize overzealous home lenders.

Our friends at *The Kiplinger Letter* say regulators are concerned that **some lenders are being too lenient with borrowers.** No, the feds are not going to issue new regulations, but they will make sure existing rules are followed.

“Officials worry that **some mortgage lenders have gone much too far in lowering their standards** to take advantage of torrid markets for mortgage and equity loans,” according to *Kiplinger*. “They suspect that lenders are approving buyers without fully checking income and asset levels, accepting credit risk scores that are too low and lending out more than a home is worth.”

“Regulators fear widespread home loan defaults will result, triggering a bond market crisis.” In time, *Kiplinger* reports, “**scrutiny will slow the lending pace, adding to a slowing of housing markets in 2006.**”

This tighter scrutiny is a reaction to those hot, bubbling housing markets on the two US coasts. **It remains to be seen if their “close watch” will extend to parts of the country where there is no bubble, such as Austin and all of Texas.** But, many lenders these days are *national* lenders. They have loan portfolios in Austin that sit on their books alongside their portfolios on the East and West coasts. So it's possible Austin borrowers may come under this scrutiny.

**Speaking of changes in home buying, the baby boomers are losing their muscle in the marketplace. In the past, what baby boomers said they wanted was much of what you found in new home designs (and just about everything else). This, too, is about to change.**

Because of their sheer numbers (and this translates into buying power), the **baby boom generation for decades dictated what is offered in the marketplace.** Trends in new homes were driven by this mass market just like everything else. Well, move over baby boomers. According to the latest data, the **younger generations are now purchasing 55% of all new homes.** These new buyers are techno-savvy, have a strong awareness of their options and are more likely to be house shopping on the Internet. They want luxury, high ceilings and four or more bedrooms – more so than baby boomers or seniors. The times, they are a-changin'.

**Why is Austin and Texas growing so rapidly? Well, frankly, we're quite a prolific population. Texas ranks 2<sup>nd</sup> in the nation for birth/fertility rates. But there's much more to it.**

Perhaps the most important factor behind the recent population growth is the **strong pace of net migration, which includes both domestic in-migration and international immigration**. Think about it. While you may have seen lots of kiddoes romping wherever you go, you also probably know plenty of folks who've moved here from outside the area. And there are more of the latter than the former, according to two Associate Economists with the Federal Reserve Bank of Dallas, **D'Ann Peterson** and **Laila Assanie**.

This rapid growth is quickly changing the face of Austin and Texas. Quickly is the operative word. If you take just a minute to absorb some numbers (don't let your eyes glaze over), you'll get the idea. **From just 1980 to 2003, Texas went from 65.71% Anglo to 49.49% Anglo**. The Black population also dropped, but not as dramatically, from 11.89% to 10.85%. Anglos and Blacks are diminishing as a percentage of the whole.

You've already figured out the biggest increase. **Hispanics in 1980 were only 20.98% of the Texas population. In 2003, they were 35.34%**. This rapid rate of growth is expected to continue. "Others" (Asian, Native Americans, multi-race) went from 1.41% to 4.32%. Hispanics will likely be a true majority in 2020.

The face of Texas has rapidly changed and will keep changing. In 2040, Peterson and Assanie predict the same trend of the past two decades will continue (Anglo and Blacks diminishing as a percentage, while Hispanics – dramatically – and "Other" increasing). They forecast it will result in this population spread in 2040: **Anglo, 32.5% ... Black, 9.4% ... Hispanic, 52.5% and "Others," 5.6%**.

One of the interesting facets of this significant shift in our population is what will happen *within age groups*. The fast-growing Hispanic population has a different age structure than the Anglo population, according to Peterson and Assanie. **Hispanic Texans, as a general rule, are much younger**. In fact, Hispanics already make up a greater percentage of the Texas population under five years of age than Anglos. When you project this trend out several decades, you find **only those over 65 will be predominately Anglo in 2040**. All other age groups will be defined by huge Hispanic majorities in Texas.

Remember what we said about the baby boomers in the previous story. Right now, the baby boom generation is losing its designation as the largest segment of the population, and **by 2024, the youngest baby boomers will turn sixty**.

This brief summary was taken from facts in a forthcoming monograph by the Federal Reserve Bank of Dallas titled *The Face of Texas: Jobs, People, Business and Change*. If you want more info, the monograph goes deeper into what these changes will mean for you and Texas.

**Don't answer the phone Monday, June 20<sup>th</sup>. If you do it's going to cost you.**

Sunday, June 19<sup>th</sup> at midnight, is when the floodgates open. **This is the time, by law, that your friendly state representative, state senator and statewide officials can start dialing for dollars.** You see, these officials are prohibited from raising campaign cash while the Texas Legislature is in session and for 20 days thereafter. The session ended Monday, May 30<sup>th</sup>, so June 20<sup>th</sup> is the full first business day they can legally put the arm on you for the big bucks.

An interesting twist to all this is that very few state officials are sure which offices they will be seeking next year. Most of them are waiting for USSenator **Kay Bailey Hutchison** to drop her other shoe and say whether she will run for governor. If she does, look for **other state officials to start jockeying for a different job.** So, when you get the call June 20<sup>th</sup>, you will be asked to "help support me for whatever job I may seek." This could get dicey because the candidate on the phone may run against an official who is a good buddy of yours. You're forewarned.

**When an investigation was announced this week into whether the Texas Lottery was fudging the amount of money in Lotto Texas jackpots, it may mask a more basic problem.**

The claim is that lottery officials are announcing a jackpot amount when there is not enough money being gambled to equal the claimed payout. Whether this is true remains to be seen. But it is pretty clear **Lotto Texas is suffering badly** and it could be due to the humongous Mega Millions game that is also offered in Texas.

For some time now, especially since the Mega Millions Lottery was offered to Texans, **Lotto Texas jackpots have grown very, very slowly – indicating fewer and fewer players.** And if this is the case, it could get worse. When California joins Mega Millions this month, the jackpots could reach record levels. This could further siphon Texans away from Lotto Texas.

**Dr. Louis Overholster** doesn't believe we'll master space travel until NASA loses his luggage.

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