THE Neal Spelce AUSTIN LETTER

www.AustinLetter.com
P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail **News@AustinLetter.com**

Volume 29, Number 21

August 24, 2007

Dear Client:

The tightened credit in the home mortgage field may actually be helpful to Austin area businesses.

As we have reported, the impact of the **subprime mortgage crisis has slammed the door on many borrowers — even those with "good" credit**. More and more Austin area residents who, just a few months ago, might have sailed through a second mortgage application, a refinancing or a home purchase are finding it more difficult – if not impossible – to be approved for those loans today. How is this manifesting itself at Austin area lenders?

First of all, **interest rates have risen –** making mortgage payments higher. But it is more than this. **Requirements for approval are much more stringent** than before on everything from borrowers' income verification and credit scores to home appraisals.

Another area where it is tougher on the borrower: any loan products that had allowed low-risk borrowers to avoid putting any money down, or requiring only a small amount down, are no longer available. **More scrutiny**; **fewer choices**. And guidelines are being revised almost daily. Some lenders are failing to fund home loans even as pre-approved buyers and sellers sit at the closing table.

One buyer was quoted as saying: "I have great credit and relationships but none of it matters. **The market isn't discriminating between me and every deadbeat, zero-down borrower**."

Yes, almost overnight, it is a lot tougher to get a home loan product. But think about it from the *lender*'s perspective. Financial institutions are in the business of making loans to make money. **With these tighter restrictions they are not able to make as many home loans**. **This frees up money for *other* loan purposes**.

Bingo! This is where *business borrowers* come in. For the most part, **Austin area financial institutions are eager to lend to businesses – especially small businesses with good credit records**. This helps to offset their dwindling mortgage income. Not to minimize the crisis that is tightening the screws in the mortgage market. It's a serious problem. But out of this problem an *opportunity is emerging for businesses* that may need to seek more money.

Many financial institutions, however, are seeing their stock prices take a beating. And in some cases, it appears undeserved.

Institutions that have eagerly made subprime mortgage loans, made loans by simply taking the borrower's word on annual income and not checking further, made loans with no money down – or only 5% or 10% down – and loaned money for mortgages to customers with marginal credit are being hammered now. **Many mortgage companies have gone out of business, laid off employees or gotten out of the questionable-loan business entirely**. And, if they are still standing, their stock prices have been hit hard.

But what about *other* financial institutions that have *not* been engaged in similar practices? **Many of them have had their stock prices pummeled unmercifully as well**. It's called being "tarred by the same brush."

In fact, we know of one Texas-based financial institution with a strong presence in Central Texas that has seen its **stock price cut in half**. **Yet, this bank does not originate subprime loans**. Also, instead of making no-money-down loans, or very little down payment loans, every mortgage loan in its portfolio averages a 72% loan-to-value ration. **This is almost 30% down**. And, on top of that, the **average credit score on all those loans is a very solid 711**.

Yet its stock price this week is still less than half of what it was earlier this year. Of course, this has **created an opportunity**. If you check the bank's insider trading transactions on file with the government, you will see the officers and directors who know the most about how well the bank is doing – despite the bad industry publicity — are **consistently buying more stock at the lower prices**. While they are crying over today's low stock price, they may have the last laugh.

The mortgage meltdown has business people buzzing in Austin and around the state. No question the credit crisis is serious, but what about the rest of Austin's and the state's economy? Has there been a lot of spillover?

Psychologically, yes – but, in actuality, not all that much. Anytime a major sector of the economy begins roiling with problems and uncertainty, it has a decided impact on the psyche of most. Worry and concern increase. Especially about what *might* happen.

But the *reality* is Wall Street has given Texas a big thumbs-up for the next year. Texas borrows money at the beginning (September) of each fiscal year to carry it through the tax collections for the remainder of the year through August. **The Big Three New York bond rating firms all gave Texas short-term notes the highest rating possible**. So the notes were sold this week at the best possible interest rate. **The state's strong credit rating is testimony to the solid economy anticipated for the next year**. And this includes employment growth.

Jobs are a basic driver of the economy. **And the Austin area is among the strongest in the nation in creating new jobs**.

For more than two years now, **the Austin metro area has been adding new jobs at one of the strongest paces in the nation**. Our metro includes the counties of Travis (Austin), Williamson (Round Rock, Georgetown), Hays (San Marcos) Caldwell (Lockhart, Luling) and Bastrop. The pace of job growth shows no signs of letting up.

Since July 2006, **almost 20,000 jobs have been added in our five counties**. The latest *un*employment percentage in July 2007 was 4%. While this is high for the year, you need to look at the same month a year ago, to take into account seasonal employment fluctuations, for the best comparison. **The current unemployment is better than July 2006, when it was 4.6**%. Adding jobs while lowering unemployment is a great equation for economic success.

So how does the Austin Area stack up in Texas? **The state's unemployment in July was 4.4**%. **San Antonio's and Houston's July unemployment was 4.6**%.

How does Austin compare to California – the Silicon Valley? Pretty doggone good, thank you. **The San Jose-Sunnyvale-Santa Clara metro unemployment was up to 5% in July and that was worse than a year ago when it hit 4.8**%. Their job situation is worsening slightly. California's state rate was 5.5%; the nation's, 4.9%

On top of all this, **Texans are more confident now about their jobs and their employers**. The Texas Employee Confidence Index has reached its highest level this year. A spokesperson for the Spherion Employment Report said "overall confidence has been on the rise and the demand for skilled workers hasn't let up."

"Confidence" is an important measure – even though it is based on *perception*. **Perception drives decisions**, more than reality in many cases. So if Texas workers believe the state's economy is ticking along nicely, and they feel positive about the future of their employer and their continued job security, **they are likely to spend more money in retail operations and for such big ticket items as cars and homes**. Again, this bodes well for the Texas economy, even if there are slight up-and-down fluctuations. And, as we have said many times, the Austin area leads the state economically these days.

Not only does Austin lead the state economically, **but by at least one measure Austin is the best place in the US for business**.

Moody's Economy.com Inc. gave Austin the top spot over almost 400 US metro areas, based on current conditions and expected trends as well as potential risks.

The first home football game for the Texas Longhorns 9/1/07 will generate a lot of hoopla as 35,000 out-of-town fans descend on Austin, filling more than 14,000 hotel rooms. But another football season opener down the road in Seguin will be noted for one out-of-towner who may draw a crowd in his own way.

The out-of-towner will be traveling with the Sul Ross University football team that squares off against Texas Lutheran in Seguin. He's a college football player. Now, this isn't your "skinny-kid-comes-off-the-bench-to-become-a-hero" type story. This college football player is 59 years old! No, this is not a typo. **Mike Flynt is 59 years old and he hopes to be the meanest football player on a field filled with teenage athletes.**

His coach says Flynt was the biggest, fastest, strongest linebacker he had when Flynt, 59, showed up for fall practice August 12th. But he still has to make the team. How he got there is an interesting story. You see, after Flynt graduated from Odessa Permian HS in 1967, he **flunked out of the Univ of Arkansas** and transferred to Sul Ross in Alpine where he got **kicked out of school for fighting**.

He ended up as a strength coach at TexasA&M, Oregon and Nebraska until he was **fired at UofNebraska for, as a friend put it, "puttin' the whup-ass" on a football player**. He went on to make a lot of money inventing the portable bow-flex weight training machine and said he found peace in his life.

Deciding to correct some of his "mis-steps" in life, he found he had a year of football eligibility left at Sul Ross, so Flynt, 59, approached Sul Ross's football coach and **offered to buy his own uniform in return for a tryout for the team**.

Think the tough old bird can hold up against football players this day and age? Well, you may find out. If he makes the team, Mike Flynt *could* show some of these young whippersnappers a thing or two at 6 pm 9/1/07. (**Did we mention he is 59 years old**?) We'll see.

Speaking of success, **Dr. Louis Overholster** observes that a fool and his money are soon married!

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for $150 (plus tax) per year or $249 (plus tax) for two years. To subscribe, call 512-327-2172. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 4105 Bee Creek Rd, Spicewood, TX 78669. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely

Neal Spelce

Editor/Publisher