



Volume 36, Number 31

October 24, 2014

Dear Client:

Austin area bankers know this, but most Austin homeowners don't. If a borrower defaults on a mortgage, and can show the lender failed to adequately evaluate his ability to repay the loan, the lender can be sued – that's right, the lender can be sued – and held liable for substantial damages.

The Dodd-Frank Wall Street Reform and Consumer Finance Protection (CFPB) Act has been the law since 2010, but may be about to be modified (more about the possible modification in a moment). **Making a mortgage loan has never been an exact science. In fact, bankers have historically had some flexibility.** Remember the good ole days – especially in smaller towns --when a banker knew the borrower and felt he would be good for the loan. Well, the good ole days went away in 2010. No more flexibility.

Now the courts can second-guess a lender's evaluation of a borrower's creditworthiness. You see, the Feds laid out precise requirements that a bank must document and verify before making a mortgage. The list is long. But the regs are not specific as to how the factors are to be applied or evaluated, according to real estate research economist, **James Gaines.**

Gaines said the lender is required to **verify all information from independent third parties.** The banker must **document everything** and be able to **reproduce the documents in the future.** No more no-doc/low-doc loans. Before Dodd-Frank, the mortgage credit pendulum swung from the “way too easy” side to the “almost ridiculously difficult” side – which is where we are today

Not only were the requirements stricter, bankers were not sure how the Feds were going to enforce these tighter regs. **So mortgage loans were difficult to come by – especially for lower-income, first-time homebuyers.**

For instance, Gaines said the **“\$100,000 to \$250,000 home price segment that incorporates many first-time move-up buyers has declined nearly 7% in 2014.”** This illustrates that a substantial number of borrowers cannot comply with a 43% total debt-to-income ratio, as one example of the requirements.

Check out the next item for some positive changes that may be just around the corner.

Is the already piping-hot Austin area housing market about to get even more active? Could be. The Feds are signaling they might lighten-up on regs that force lenders to make mortgage loans only to borrowers with near-pristine credit.

Keep in mind what you just read in the previous item. Bankers have been under the thumb of the government, threatened with legal punishment if some of their home loans go south. So lending has been really tight. Now, the report out of Washington is the regulators are about to **greatly expand mortgage credit and, at the same time, give protection to lenders.**

“This is a big deal,” said Mark Dotzour, the chief economist and research director at the TexasA&M Real Estate Center. “If these changes are made, then it will open up the home purchase option to many Americans who currently can’t get a mortgage.”

Specifically, what changes are being considered in addition to easing the penalties for bankers if a loan becomes delinquent? Well, for one example, **homebuyers could be required to put only 3% down, instead of 20%.** See why it is a big deal. Many people simply do not have the money for a 20% down payment.

So what happens if requirements are eased? Dotzour claims unequivocally that **existing home sales will increase. New home sales will increase. New home construction will increase** and, in the process, create lots of new jobs.

Now, pause for just a minute and think what this could mean to the red hot Austin market. Just this week, the Austin Board of Realtors reported September home sales jumped 10.3%, compared to a year ago. **Even without a change in the regs, Austin is on track to rack up the best home sales year ever.** As a result, home prices continue to rise.

As you are probably aware, it has become more and more **difficult for newcomers and longtime Austinites to afford a home because the prices have been rising.** Part of the reason: there have been few homes from which to choose.

Supply and demand. For the buyer and seller to be on equal footing, it takes about 6.5 months to sell existing inventory. **The sellers are in control because there is currently only about a 2.8 month supply in the Austin area.** As long as jobs are being created, the demand should stay strong.

The Feds are considering these changes because many US housing markets really need the help. The Austin housing market, obviously, does not need assistance. **But the looser-lending changes will be made nationwide and they will apply in Austin just as they do in the most down-trodden of cities.** Consequently, many would-be Austin homebuyers, who have been kept out of the market because of the tight restrictions, will start looking for homes. If all this happens, the Austin area residential real estate market should continue on the fast track.

One of the reasons Texas was just designated the #1 state for business climate six times in a row is its impressive transportation infrastructure. And it can thank its location for that.

Texas's central location makes it easy to reach consumer markets all across the country. Additionally it has **six of the nation's 20 most populous cities, and surrounding land costs are more reasonable** than prices near US metro areas of a similar size. The Texas business boom has made the Lone Star State the country's top exporting state. And the state's transportation infrastructure ties all of this together. Consider the following:

Texas has more than 3,000 miles of highways, more than any other state. And unlike most states, it does not have heavy-haul corridors. So, importantly, trucks are welcome on all major thoroughfares.

Texas is also home to the second-longest rail system in the country that connects the state to both coasts as well as to Mexico. It is served by three Class 1 railroads: Union Pacific (that runs through Austin, along MoPac), Kansas City Southern, and Fort Worth-based BNSF Railway.

The state is home to the 12th-busiest port in the world, the Port of Houston. And air cargo service is excellent, with the Dallas-Fort Worth Airport alone handling more than \$50 billion worth of cargo each year.

By the way, that #1 state business climate rank for Texas wasn't even close. The survey conducted by New York-based Development Counsellors International gave **Texas a whopping 49.7%**, with 2nd place Florida picking up only 18.1%. The other top states: Georgia and North Carolina tied for 3rd with 17.6% each. South Carolina received 12.6%, Tennessee 11.6%.

With the downtown urban rail election only about ten days away, Charlie Betts, the Executive Director of the Downtown Austin Alliance is emphasizing the impact on downtown.

"Ingress and egress to downtown is still the real problem," Betts says. "A superior public transit system is the only real long-term solution to traffic congestion. **When a good percentage of commuters use public transportation then those of us who drive will find relief."**

As for those who argue downtown mobility is a serious problem because the **vehicle lanes and parking spaces have been lost in favor of buses, pedestrians and bicycles,** Betts said this: **"if the transportation improvements downtown aren't working, why are we experiencing the biggest building boom downtown in our history? Proof is in the eating of the pudding."**

Early voting is currently underway for the November 4th General Election.

Watch out! Be Careful! Deer collision rates rise dramatically in October and they are expected to peak during November. It's migration and mating season for Austin area deer – and they are on the move.

The highest deer population in the state can be found in the Hill Country of Central Texas. The Texas Parks and Wildlife Department estimates there are **2.1 million deer in this area**. It's one of the largest concentrations of whitetail deer in the US. While the deer population increases as you head to the west, **the western hills of Austin are particularly dangerous because of the large number of vehicles in the metro area.**

The most dangerous times of day are in the early morning and early evening hours. Deer usually bed down overnight and take mid-day siestas. But randy old bucks may be on the prowl beyond those times. And with just one thing on their minds, they throw caution to the winds and don't pay much attention to fast moving vehicles. (You can insert wise-acre jokes here.)

The Highway Loss Data Institute (HLDI) estimates there are **5-to-9 animal strikes in Texas, mostly involving deer per 1,000 insured vehicle years**. We won't bore you with the complex method used by HLDI to calculate this, but for perspective this fits the national average that includes much more populous areas.

More importantly, HLDI found **deer strikes are becoming more severe**. While not particularly good for the deer, insurance claims by drivers are more expensive. And, of course, there is the risk of injury to vehicle occupants.

In that connection, you may see a noticeable number of absences from work Friday, October 31st. And it's not just because that is Halloween. **Saturday November 1st is opening day of deer hunting season**. Many hunters think the opening of the season should be declared a state holiday (really!) as they head to deer camps to be ready for the sunrise opening of the season.

Dr. Louis Overholster says a non-typical whitetail buck is one that stays off the roadway!

Sincerely,



Editor/Publisher