

Lingering Effects of Subprime Lending

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June 12, 2019

Publication 2238



More than ten years ago, the United States entered the worst recession since the Great Depression. A confluence of factors prompted the Great Recession (GR), including a rise in mortgage-backed securities and predatory lending in mortgage origination markets. Widespread expectations for continued home-price increases spurred corporations, lenders, and borrowers to invest in the housing market. However, loosened underwriting standards—driven partly by government policy to promote homeownership—and easy access to credit facilitated the rise in mortgage products that posed considerable risk to both borrowers and lenders.

Greater availability of mortgage credit made homeownership possible for low-income and minority borrowers, but lenders targeted these borrowers with risky mortgage products. Subprime mortgages—broadly defined as high-cost loans that carry higher interest rates than prime mortgages—increased from 5 percent of total mortgage originations in 1994 to 20 percent in 2006. The Department of Housing and Urban Development found subprime loans were three times more likely

The Takeaway

Subprime lending, which largely targets low-income homebuyers, has declined in Texas since the Great Recession, but the effects linger. Home values have dropped significantly for many subprime mortgage holders, reducing their overall wealth. In addition, tighter lending standards and a shortage of affordable homes have made homeownership difficult for many potential buyers.

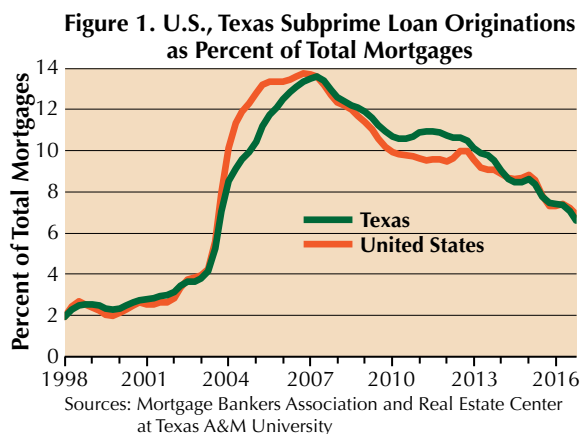
in low-income neighborhoods than in high-income neighborhoods and five times more likely in black neighborhoods than in white neighborhoods. The limited supply of prime lenders in low-income and minority neighborhoods left those households more susceptible to subprime lending.

How has mortgage lending changed since the GR? How did subprime loans affect low-income and minority homebuyers in Texas? How have changes in mortgage lending standards affected the ability of low-income and minority households to qualify for homeownership in Texas?

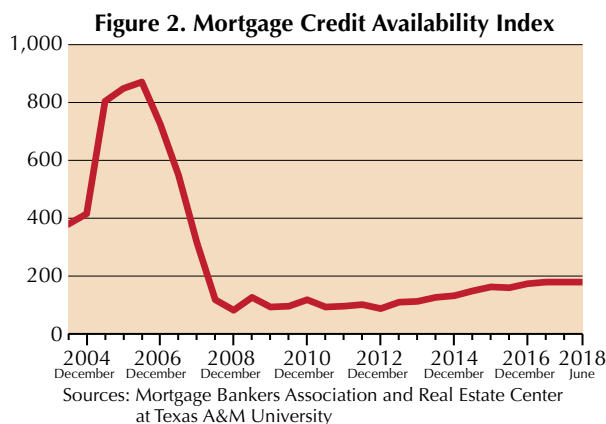
Addressing these questions requires an understanding of the mortgage-lending environment before and immediately after the GR.

Pre- and Post-Recessionary Mortgage Originations

In the years preceding the GR, mortgage purchase originations increased rapidly. From 1990 to 2005, the dollar volume of residential mortgage originations more than quadrupled, increasing from \$390 billion to \$1.5 trillion. A similar trend was observed in subprime mortgage originations. Nationally, subprime mortgage originations nearly tripled between 2003 and 2004 (Figure 1). Texas had slightly lower but still significant origination increases of just over two and a half times during that period. Both the nation and Texas reached a peak in subprime mortgage originations in second quarter 2007 (2Q2007).

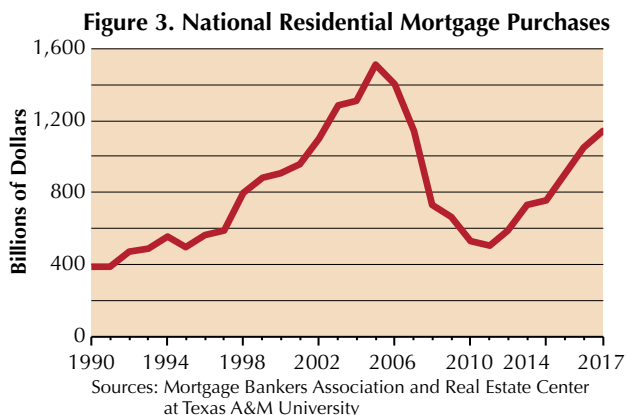


Access to mortgage credit also increased in the lead-up to the GR, with lending standards loosening. According to the Mortgage Bankers Association's (MBA) Mortgage Credit Availability Index (MCAI), mortgage credit availability increased by 230 percent between June 2004 and June 2006 (Figure 2). The spike in subprime residential mortgage loan originations corresponded with

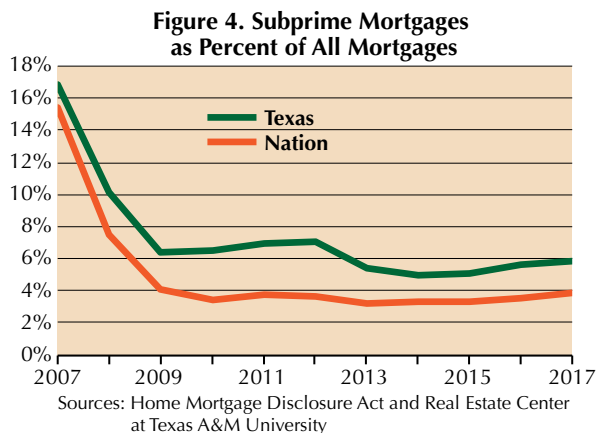


expanded access to mortgage credit, suggesting lending standards were slackened to generate more originations. After peaking in June 2006, mortgage credit availability declined sharply until June 2008. The MCAI peak and dramatic decline correlated with the height and fall of housing prices, which led into the GR. However, despite the improvement in the housing market since the recovery from the GR, the supply of mortgage credit remains sparse.

Nationwide, mortgage purchase originations plummeted in the wake and immediate aftermath of the GR, tumbling to \$505 billion in 2011 (Figure 3). Originations have since climbed but remain well below levels in the immediate run-up to the GR. The decrease in mortgage credit availability likely reduced aspiring homeowners' ability to purchase homes, particularly for low-income households that lack sufficient income, wealth, or other compensating factors.



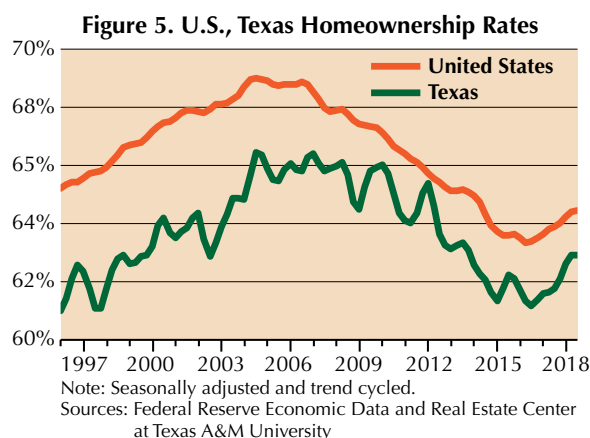
Texas' subprime mortgage originations closely followed the nation during and after the GR. Subprime originations for both Texas and the nation have declined substantially since 2Q2007 (Figure 4). In 2007, prior to the onset of the GR, subprime originations made up 16.9 percent of all purchase originations in Texas and 15.4 percent nationally. Subprime originations have



comprised a slightly larger share of all mortgage loan originations in Texas than in the U.S. In 2017, several years following the recovery from the GR, subprime originations made up 5.8 percent of all purchase originations in Texas and 3.9 percent nationally.

One contributing factor may be the relatively high rate of home-price appreciation in Texas, which may increase demand for subprime loans. The high rate of price appreciation in Texas is due to strong demand caused by increased job and population growth outpacing housing supply. The increase in supply of Texas subprime originations could also be traced to mortgage lenders raising their number of subprime originations to remain competitive with other lenders.

Nationally, the homeownership rate plummeted to a five-decade low in 2016 (Figure 5). It declined more than 6 percentage points over a 12-year period, from a high of 69.2 percent in April 2004 to 62.9 percent in April 2016. Meanwhile, Texas homeownership fell to an over two-decade low in 2016. While the homeownership rate has since rebounded, it measures below the long-term average. In the 1990s and 2000s, both the Clinton and George W. Bush administrations pushed for federal policy to increase homeownership, particularly among low-income and minority households. The number of low-income first-time homebuyers increased by over 40 percent from the late 1980s to the mid-2000s. The number of black and Hispanic first-time homebuyers increased by over 50 and 188 percent, respectively.

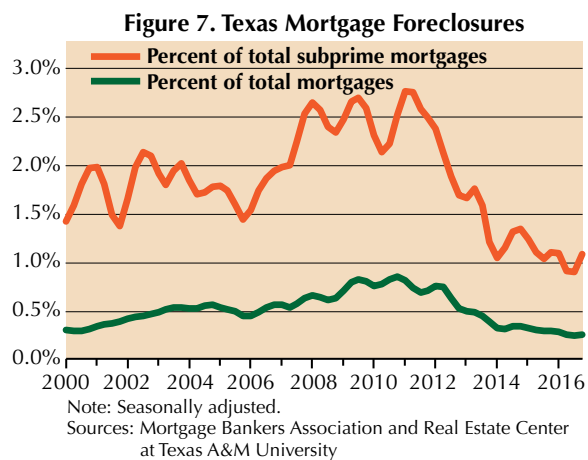
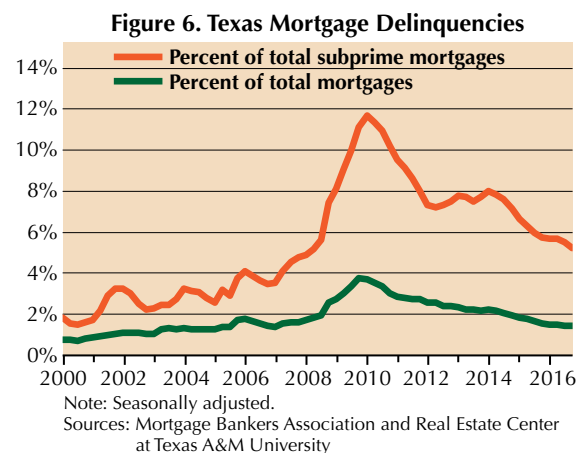


According to the University of North Carolina, the rise in homeownership was accompanied by widespread mortgage loan fraud, which increased twelve-fold from 1996 to 2005. Much of this fraud was by lenders who overstated applicants' incomes, offered loans without requiring proof of income and/or verified assets, and encouraged adjustable-rate or interest-only mortgages.

Higher-risk borrowers who would have otherwise likely been unable to qualify for homeownership became responsible for mortgage payments they could not reasonably afford.

Fallout from Subprime Loans

Texas subprime mortgage foreclosures appear to be highly correlated to delinquencies. During 1Q2010, subprime mortgage delinquencies had the largest spike in more than a decade (Figure 6), while foreclosures increased beginning in 2Q2010 and hit a more than ten-year high in 1Q2011 (Figure 7). This suggests subprime mortgage delinquency increases are good indicators of future increases in foreclosures.



The percent of delinquencies for subprime mortgages reached their high at over 11.7 percent of total subprime mortgages, but foreclosures peaked at only 2.7 percent. This clearly shows subprime mortgages are considerably more likely to go into delinquency than foreclosure. The significantly higher number of delinquencies was expected given that mortgages that go into delinquency do not necessarily fall into foreclosure. Due to the high volume of delinquencies and their relatively lower val-

ues, lenders did not pursue foreclosures on all delinquent homes as aggressively as they could have. The financial benefits of pursuing foreclosures would not have outweighed their costs.

Foreclosures during the GR led to substantial financial losses of low-income and minority families. Families that underwent foreclosures suffered negative financial impacts such as credit rating damage, decrease in net worth, rise in personal bankruptcy, loss of savings, and increased debt. The lower 30 percent of income earners observed their real mean wealth decline by 31 percentage points since the onset of the GR. Additionally, states with the highest rates of foreclosures during the GR had an almost 20 percent jump in food stamp caseload.

The GR ultimately did not affect higher-income households the way it did lower-income and minority households. While lower-income families saw their wealth decrease in excess of 30 percentage points after the GR, the top 10 percent of earners saw an 11 percent increase, and the next 30 percent saw a 17 percent decrease.

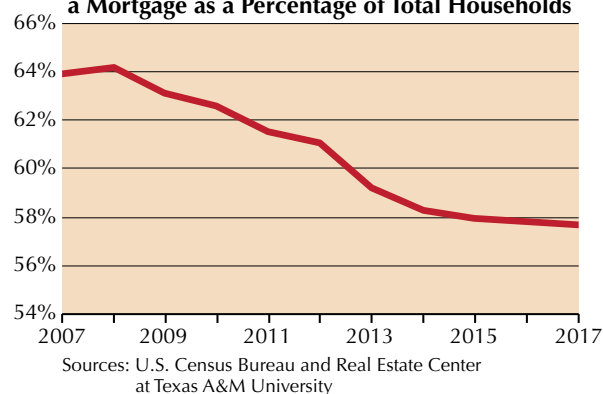
The differences can be somewhat attributed to the variation in families' portfolios before the start of the GR. For the bottom 30 percent of earners, 45 percent of total wealth was in their house, compared with only 15 percent for the top 10 percent of earners. As a result, falling home values impacted the wealth of lower-income and minority households more severely than they did higher-income households.

How Tightening Lending Standards Affected Homeownership

Following the GR, Texas households with mortgages dropped from 64 to 58 percent of total households between 2007 and 2017 (Figure 8). Additionally during

that same period, Texas subprime mortgage originations as a percent of total mortgage originations dropped by 11 percent (Figure 4). These declines suggest increased lending standards and an economic downturn have made citizens of lower socioeconomic status less able to purchase homes.

Figure 8. Texas Owner-Occupied Households with a Mortgage as a Percentage of Total Households



In Texas between 2007 and 2017, subprime mortgage originations decreased 75 percent for Asian citizens, 86 percent for blacks, 73 percent for Hispanics/Latinos, and 72 percent for whites (Table 1). The biggest changes in subprime mortgage originations for the Austin and Dallas-Fort Worth (DFW) Metropolitan Statistical Areas (MSA) were among the Hispanic/Latino and white populations.

From 2007 to 2017, subprime originations for Hispanics/Latinos in Austin increased 8.1 percent (Table 2). This could be because of the MSA's higher average home price, which makes homeownership more difficult. In 2007, Hispanics/Latinos made up 29.9 percent of the metro's total population, and by 2017 they made up 32.5 percent (Table 3). During the same ten-year period, the white population saw a 16.4 percent decrease in subprime

Table 1. Texas Subprime Mortgage Loan Origination Changes by Race, 2007–17

Race	Percent Change 2007–17	Percent of Total 2007	Percent of Total 2017
American Indian or Alaska Native	-67.0	0.3	0.3
Asian	-74.6	2.7	2.4
Black	-85.8	11.1	5.5
Hispanic or Latino	-73.1	30.5	28.5
Native Hawaiian or Other Pacific Islander	-78.5	0.2	0.2
White	-71.8	42.9	41.9
Two or more races	-77.5	0.8	0.6
Information not provided by applicant in mail, Internet, or telephone application	-46.0	10.8	20.1
Not applicable	-75.4	0.6	0.5

Note: Percentages are out of the total number of subprime loan originations for a particular year. Due to the increase in the "Information not provided by applicant..." row, percentages could be affected.

Sources: Home Mortgage Disclosure Act and Real Estate Center at Texas A&M University

Table 2. Austin Subprime Mortgage Loan Origination Changes by Race, 2007–17

Race	Percent Change 2007–17	Percent of Total 2007	Percent of Total 2017
American Indian or Alaska Native	-76.2	0.4	0.4
Asian	-69.4	3.3	3.4
Black	-80.7	4.9	3.1
Hispanic or Latino	-59.5	23.0	31.1
Native Hawaiian or Other Pacific Islander	-100.0	0.3	0.0
White	-79.2	53.6	37.2
Two or more races	-33.3	0.5	1.1
Information not provided by applicant in mail, Internet, or telephone application	-48.7	13.8	23.6
Not applicable	-90.0	0.2	0.1

Note: Percentages are out of the total number of subprime loan originations for a particular year. Due to the increase in the “Information not provided by applicant...” row, percentages could be affected.

Sources: Home Mortgage Disclosure Act and Real Estate Center at Texas A&M University

**Table 3. Austin Population by Race, 2007–17
(Percent of Total)**

Race	2017	Percent Change 2007–17
American Indian or Alaska Native	0.5	0
Asian	5.8	1.4
Black	7.3	-0.2
Hispanic or Latino	32.5	2.6
White	52.0	-4.4
Two or more races	3.7	1.5

Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

Table 4. DFW Subprime Mortgage Loan Origination Changes by Race, 2007–17

Race	Percent Change 2007–17	Percent of Total 2007	Percent of Total 2017
American Indian or Alaska Native	-69.7	0.3	0.4
Asian	-71.3	3.2	3.5
Black	-85.9	15.5	8.2
Hispanic or Latino	-60.9	21.8	31.8
Native Hawaiian or Other Pacific Islander	-76.4	0.3	0.2
White	-78.0	46.3	38.1
Two or more races	-76.0	0.6	0.6
Information not provided by applicant in mail, Internet, or telephone application	-58.5	11.2	17.3
Not applicable	-98.2	0.8	0.1

Note: Percentages are out of the total number of subprime loan originations for a particular year. Due to the increase in the “Information not provided by applicant...” row, percentages could be affected.

Sources: Home Mortgage Disclosure Act and Real Estate Center at Texas A&M University

originations. Whites made up 56.4 percent of the Austin population in 2007 and 52 percent in 2017.

In DFW, Hispanics/Latinos saw a 10 percent increase in subprime originations (Table 4). During the same timeframe, that population increased by just 2 percent (Table 5). The percentage of subprime originations decreased by 8.2 percent for whites, while the population decreased 6.3 percent.

In contrast to Austin and DFW, Houston and San Antonio experienced a decline in the percentage of subprime mortgage originations for Hispanic/Latino populations despite population growth for that demographic. Houston’s Hispanic/Latino community had a 3.8 percent decrease in subprime originations (Table 6), while that demographic increased from 33.4 percent of the total MSA population in 2007 to 37.3 percent in

**Table 5. DFW Population by Race, 2007–17
(Percent of Total)**

Race	2017	Percent Change 2007–17
American Indian or Alaska Native	0.4	-0.1
Asian	6.8	2.1
Black	15.6	1.5
Hispanic or Latino	28.9	2.0
White	46.3	-6.3
Two or more races	2.9	1.1

Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

Table 6. Houston Subprime Mortgage Loan Origination Changes by Race, 2007–17

Race	Percent Change 2007–17	Percent of Total 2007	Percent of Total 2017
American Indian or Alaska Native	-80.0	0.2	0.3
Asian	-81.4	4.1	4.3
Black	-90.6	17.3	9.3
Hispanic or Latino	-84.6	30.7	26.9
Native Hawaiian or Other Pacific Islander	-87.7	0.3	0.2
White	-81.5	34.2	36.0
Two or more races	-80.0	1.0	1.2
Information not provided by applicant in mail, Internet, or telephone application	-67.2	11.7	21.8
Not applicable	-97.3	0.5	0.1

Note: Percentages are out of the total number of subprime loan originations for a particular year. Due to the increase in the “Information not provided by applicant...” row, percentages could be affected.

Sources: Home Mortgage Disclosure Act and Real Estate Center at Texas A&M University

**Table 7. Houston Population by Race, 2007–17
(Percent of Total)**

Race	2017	Percent Change 2007–17
American Indian or Alaska Native	0.4	0.1
Asian	7.9	2.2
Black	17.2	0.3
Hispanic or Latino	37.3	3.9
White	36.1	-6.8
Two or more races	2.4	0.9

Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

2017 (Table 7). A similar phenomenon occurred in San Antonio. Total subprime originations for Hispanics/Latinos declined by 4.1 percent (Table 8), but the demographic increased 2.8 percent (Table 9).

The percentage of subprime originations decreased for blacks in all four major metros. The largest declines were in Houston, 8 percent, and DFW, 7.3 percent (Tables 6 and 4, respectively). Conversely, all four metros had an increase in the black population except Austin, which had a 0.2 percent decrease. This indicates

a decline in subprime mortgage originations for blacks relative to that group's population growth.

Texas Housing's Post-GR Challenges

Subprime mortgage loan originations have declined since the GR, returning to prerecessionary levels. Texas' four major MSAs decreased by an average of approximately 74 percent between 2007 and 2017.

However, the effects of subprime lending linger. Home values decreased 23 percent from 2007–10, particularly

Table 8. San Antonio Subprime Mortgage Loan Origination Changes by Race, 2007–17

Race	Percent Change 2007–17	Percent of Total 2007	Percent of Total 2017
American Indian or Alaska Native	-92.3	0.2	0.1
Asian	-47.5	1.1	1.9
Black	-72.2	4.2	3.7
Hispanic or Latino	-71.9	45.4	41.3
Native Hawaiian or Other Pacific Islander	-70.6	0.3	0.3
White	-70.6	35.1	33.3
Two or more races	-72.7	0.8	0.7
Information not provided by applicant in mail, Internet, or telephone application	-52.8	12.2	18.6
Not applicable	-89.7	0.7	0.2

Note: Percentages are out of the total number of subprime loan originations for a particular year. Due to the increase in the “Information not provided by applicant...” row, percentages could be affected.

Sources: Home Mortgage Disclosure Act and Real Estate Center at Texas A&M University

**Table 9. San Antonio Population by Race, 2007–17
(Percent of Total)**

Race	2017	Percent Change 2007–17
American Indian or Alaska Native	0.4	-0.2
Asian	2.3	0.4
Black	7.0	0.5
Hispanic or Latino	55.4	2.8
White	33.6	-4.4
Two or more races	3.4	1.2

Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

affecting lower-income families, many of which held a considerable portion of their wealth in their homes. This widened the wealth gap between higher- and lower-income households.

In Texas, decreases in subprime mortgage loan originations have had different impacts on different races. Austin and DFW have seen large increases in subprime originations (as a percent of total loan originations) among Hispanics/Latinos, while San Antonio and Houston have seen decreases. Though the black population has been growing, subprime originations in DFW, Houston, and San Antonio have decreased for that demographic by an average of approximately 82 percent, the largest percent decrease of any race.

While subprime lending has decreased, so has homeownership for low-income households as mortgage-lending standards have tightened and the supply of affordable homes has decreased. The dwindling access to low-income homeownership in Texas is apparent in the decrease of owner-occupied homes with mortgages, the MBA’s MCAI drop and relative flat growth since 2006, and real denial rate increases for low-credit-profile tenants. Low-income and minority households are finding it difficult to purchase homes and build wealth due to higher home prices and restricted supply of mortgage credit. 📍

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