

Home Equity Lending Report

Section 50(s), Article XVI of the Texas Constitution requires that home equity lending data be reported. Mortgage activity has long been used by economists as an economic indicator. This section presents data on some of the mortgage activity conducted by lenders licensed by the Office of Consumer Credit Commissioner (OCCC), including information about home equity and 342.G (second lien mortgage) loans. Home equity loans fall into two broad categories: second mortgage and first mortgage. A second mortgage home equity loan typically is made at a higher interest rate than a first lien transaction. A first mortgage home equity loan allows a consumer to refinance an existing mortgage and receive cash (traditionally called a Cash Out Refinance). Section 342.G loans are usually home improvement or purchase money loans and do not involve a borrower receiving cash.

The information is reported by the regulated lenders at the company level, and is not location specific; therefore, the data can be presented only on a statewide basis. The TEXAS FINANCE CODE, Section 342.559 requires these lenders to annually submit key financial information to the OCCC. The information is not audited or reviewed for accuracy. However, upon receiving the information, the OCCC enters the information into a database and reviews it for reasonableness.

The data collected by the Office of Consumer Credit Commissioner is broken out into three categories, based on data reported by licensees, and includes information on loans brokered, loans made, and loans receivable.

Loans Made

The data generally reflect the maturation of the home equity lending market in the state. As expected, an initial push of lending activity occurred following passage of the Home Equity Lending Amendment. That push, however, has been followed by a decrease in the number of home equity loans made since 1999. The market appears to have stabilized and should remain so until some change, whether it be economic, legislative, or otherwise, occurs.

Since 1998, the number of both 2nd lien and 1st lien home equity loans made has declined steadily in 2000 and 2001. While the average loan amount for 2nd lien home equity loans in 1998 was \$17,747, the number jumped to \$37,765 in 1999 before stabilizing in the lower 30s in 2000 and 2001. The average amount of 1st lien home equity loans saw its peak at \$93,811 in 1998. The number declined steadily reaching its lowest point in 2000 at \$59,838. In 2001, the average loan amount for 1st lien home equity loans jumped to \$76,522. Interestingly, the average amount loaned in both 1st and 2nd home equity transactions increased in 2001 over 2000. This uptick is likely the result of an increase in property values. A 2001 study by the Comptroller of Public Accounts revealed almost a 12-percent increase in the value of single-family residences over 2000; Multi-family residence values increased more than 10 percent over the same period.

Transactions involving second liens are currently a small part of the mortgage lending market. This may be attributed to the decline in interest rates. If interest rates rise, 2nd lien transactions may become a more attractive product for borrowers seeking cash from any equity in their homestead.

Loans Brokered*

Between 2000 and 2001, the number of second lien home equity loans brokered dropped, while the number of 1st lien home equity transactions increased. Interest rate and market conditions made cash-out refinances an attractive option to borrowers. The average loan amount of 1st lien home equity loan transactions has consistently been almost more than or more than double that of second lien home equity lending transactions.

*Only those brokering 2nd lien home equity transactions require licensing by the OCCC. This data includes information only from OCCC licensees. If a broker only negotiates first lien transactions for others, the data from those lenders is not reported to the OCCC.

Loans Receivable

The number, dollar amount, and average amount of 2nd lien home equity transactions as receivables all jumped dramatically in 2001 over any previous year. The increased market presence of one OCCC licensee accounted for most of this increase. Licensees, as a group, reported over \$14 billion in 2nd lien home equity receivables, with an average loan amount topping \$117,000.

