



**Research Into Home Equity  
Lending In Texas:  
Interviews With Key Decision-  
Makers In 91 Financial Institutions**

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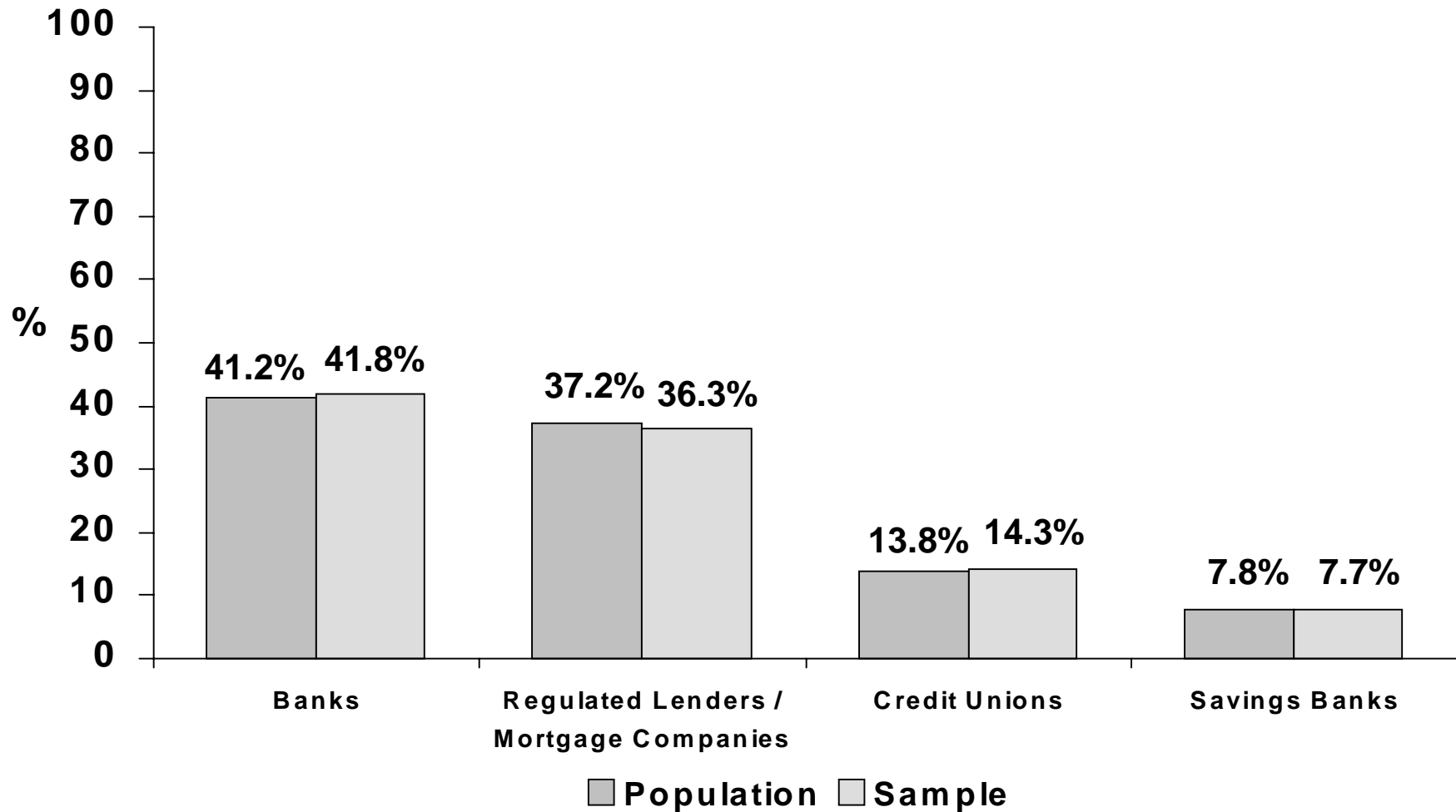
**Research Sponsored By:  
The Texas Finance Commission**

**Research Conducted By:  
Analytica, Inc.  
713-661-6878  
September, 1999**

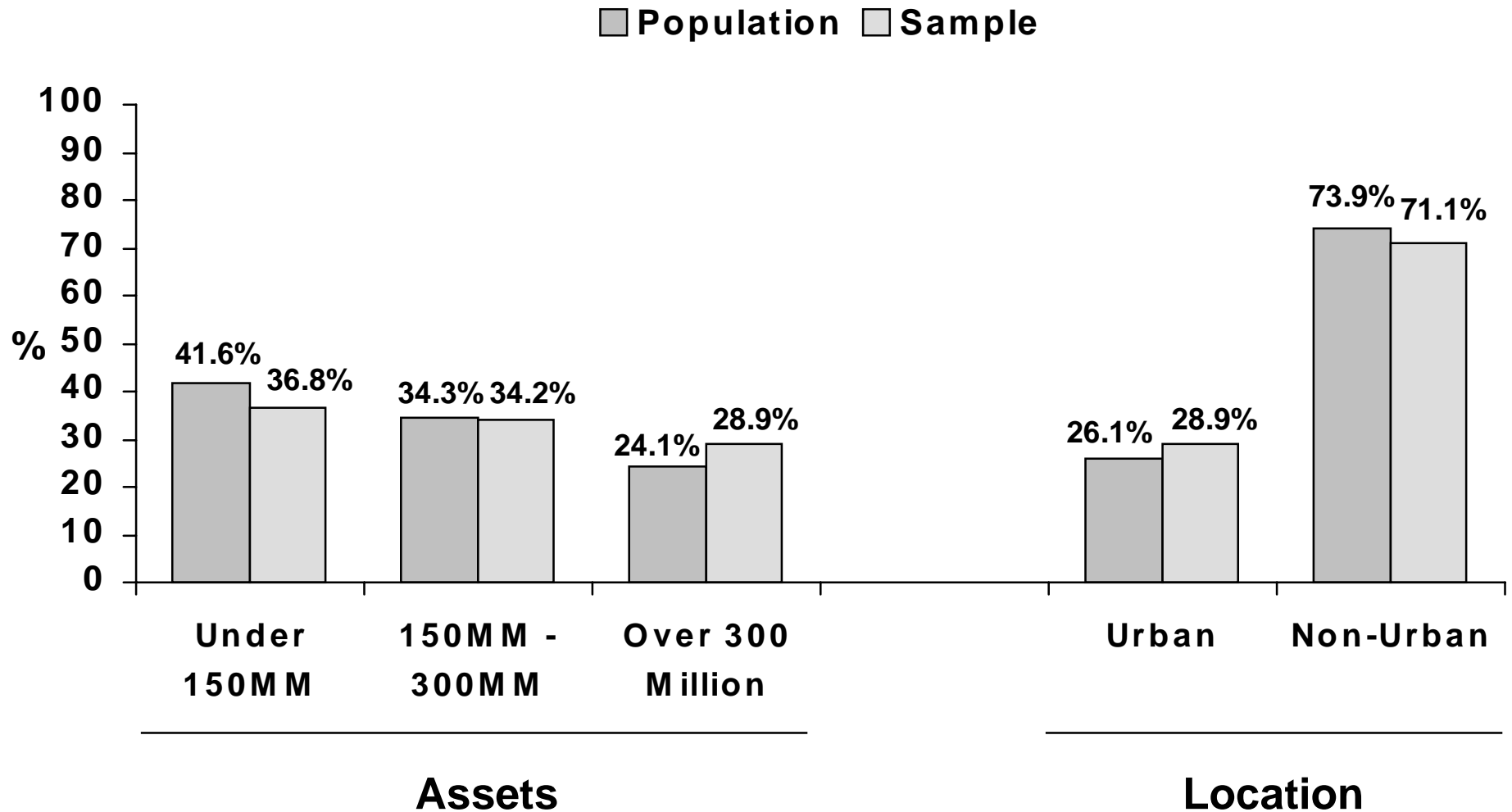
# Methodology

- **The Texas Finance Commission provided Analytica with a “Population” list of 347 Financial Institutions doing business in the state of Texas. The list included 48 Credit Unions, 27 Savings Banks, 143 Banks and 129 Regulated Lenders or Mortgage Companies.**
- **Analytica selected a random sample, stratified by type of financial institution, size and location: urban versus rural. Only one financial institution refused to participate so 92 contacts of financial institutions participating in home equity lending resulted in 91 interviews, a 98.9% cooperation rate.**
- **The interviews were completed during August, September, and October of 1999.**

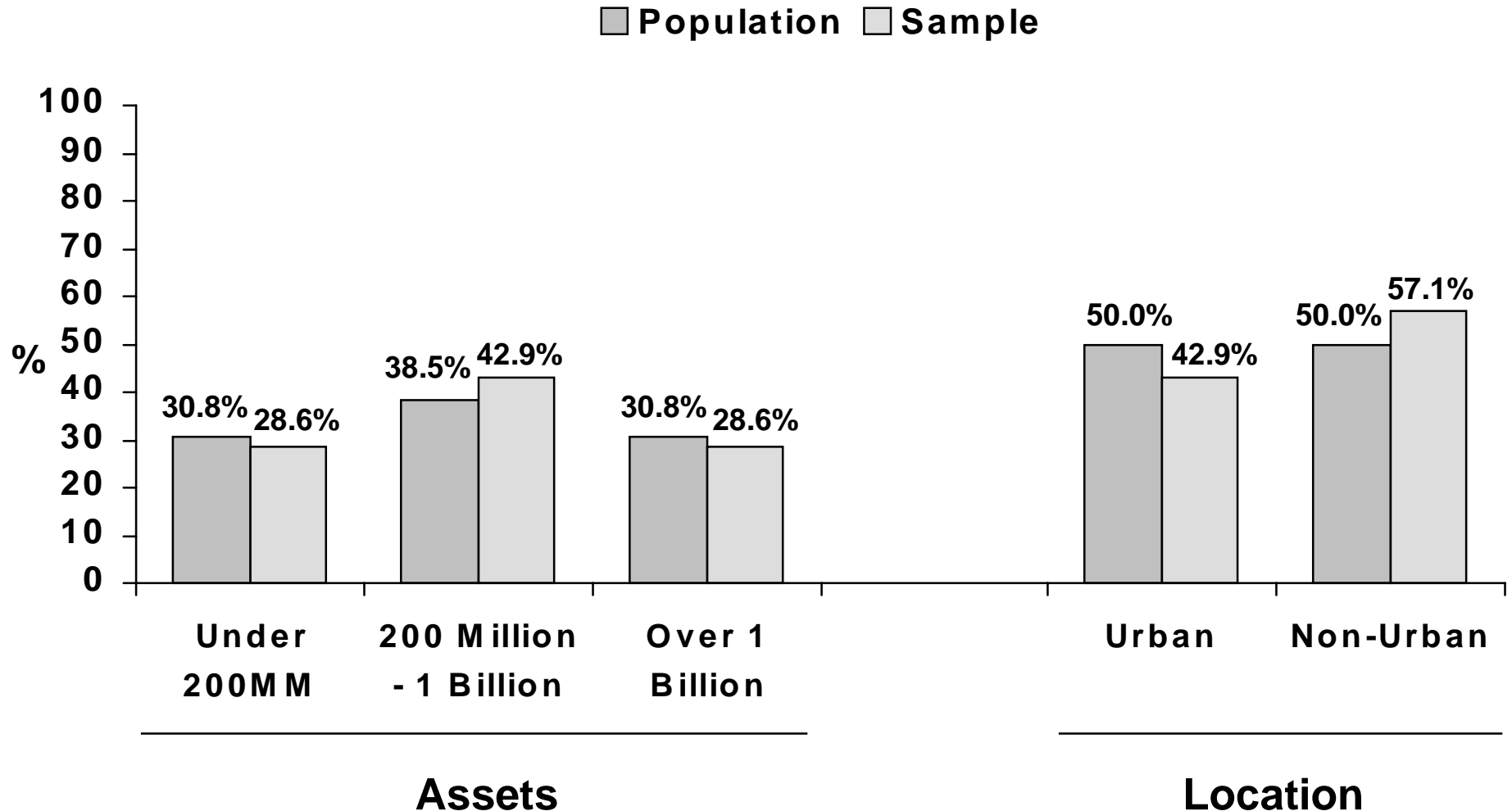
# Percent Of Population And Sample Of Each Type



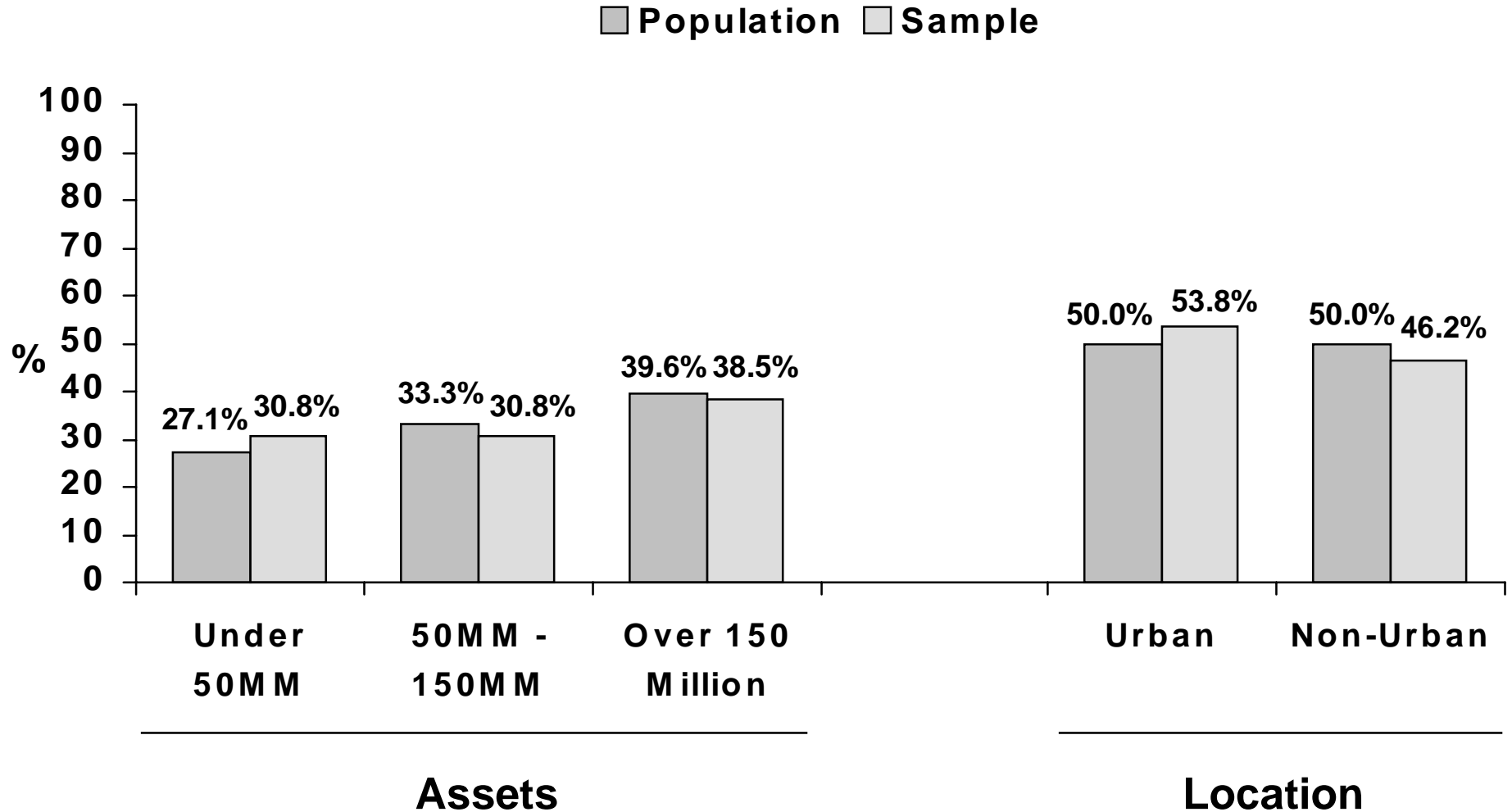
# Percent Of Banks In Population List And Sample: By Size And Location



# Percent Of Savings Banks In Population List And Sample: By Size And Location

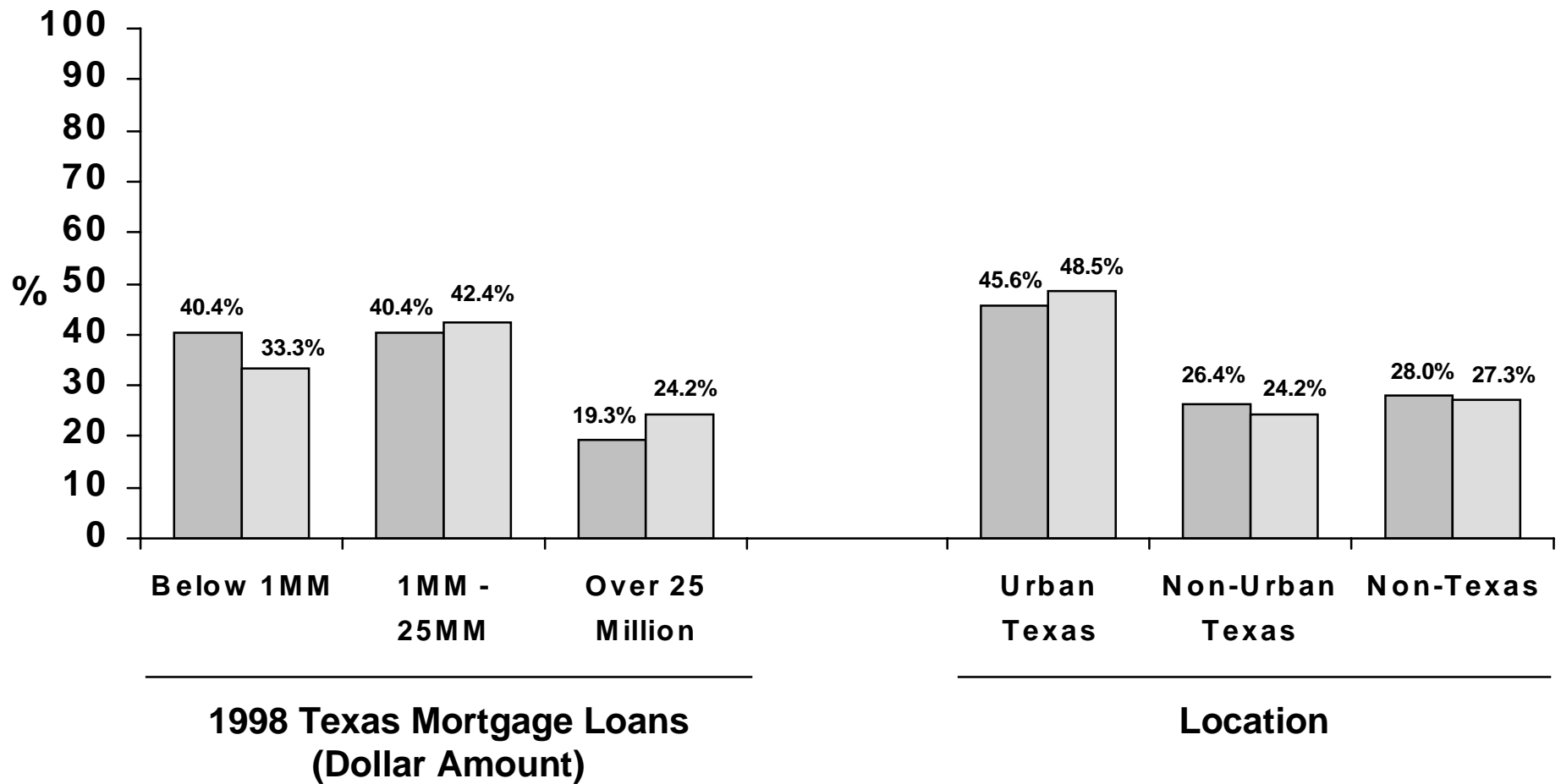


# Percent Of Credit Unions In Population List And Sample: By Size And Location



# Percent Of Regulated Lenders / Mortgage Companies In Population List And Sample: By Size And Location

■ Population ■ Sample

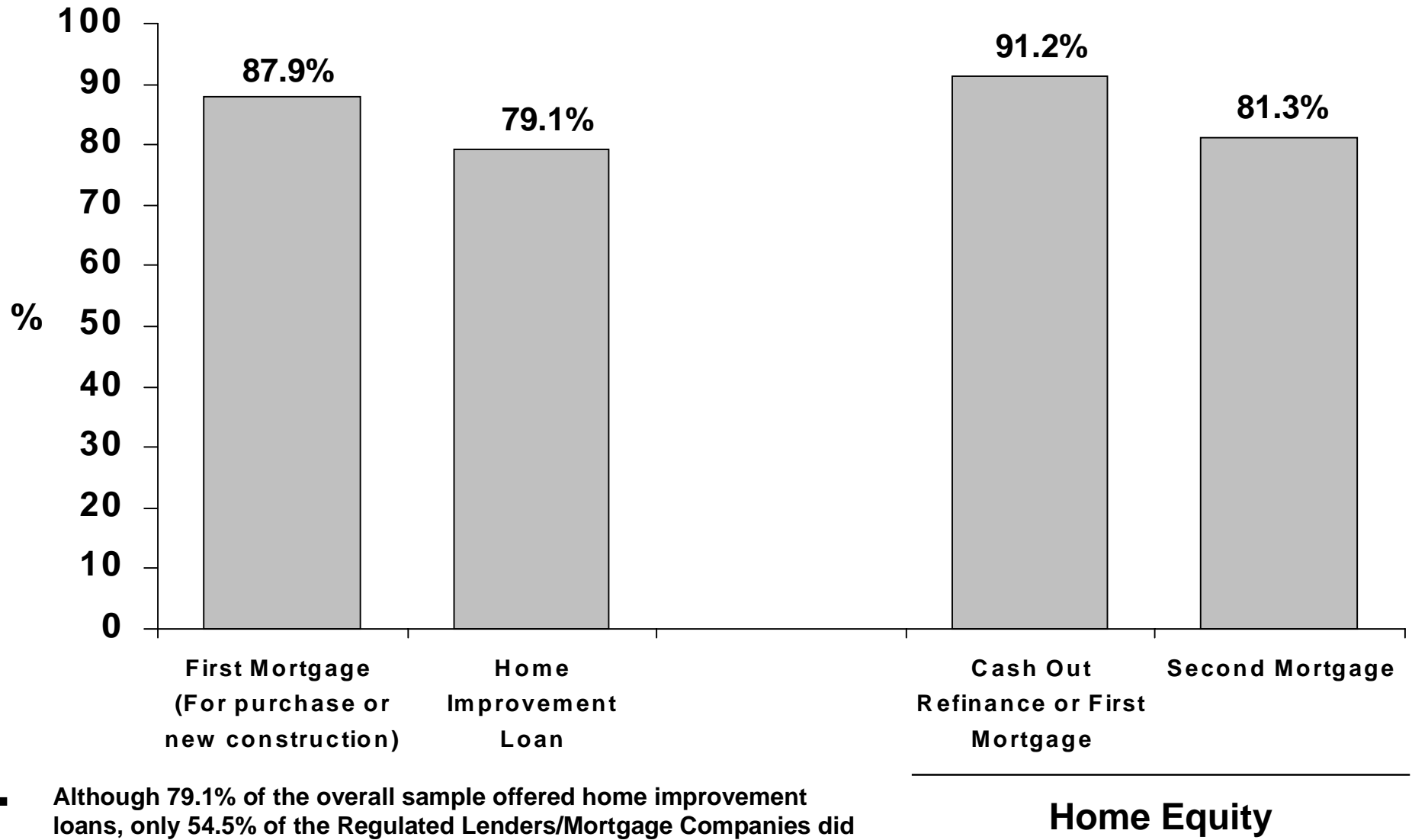


# Testing For Differences

- In doing the analysis of the data, statistical tests were performed on every question to check for differences by:
  - ◆ 1) Type of Financial Institution: (Banks, Credit Unions, Savings Banks, Regulated Lenders/Mortgage Companies);
  - ◆ 2) Size: Small, Medium, Large (within their FI type); and
  - ◆ 3) Urban versus Rural.
- Whenever there were significant differences by any of these variables those differences are reported on the slides which follow.



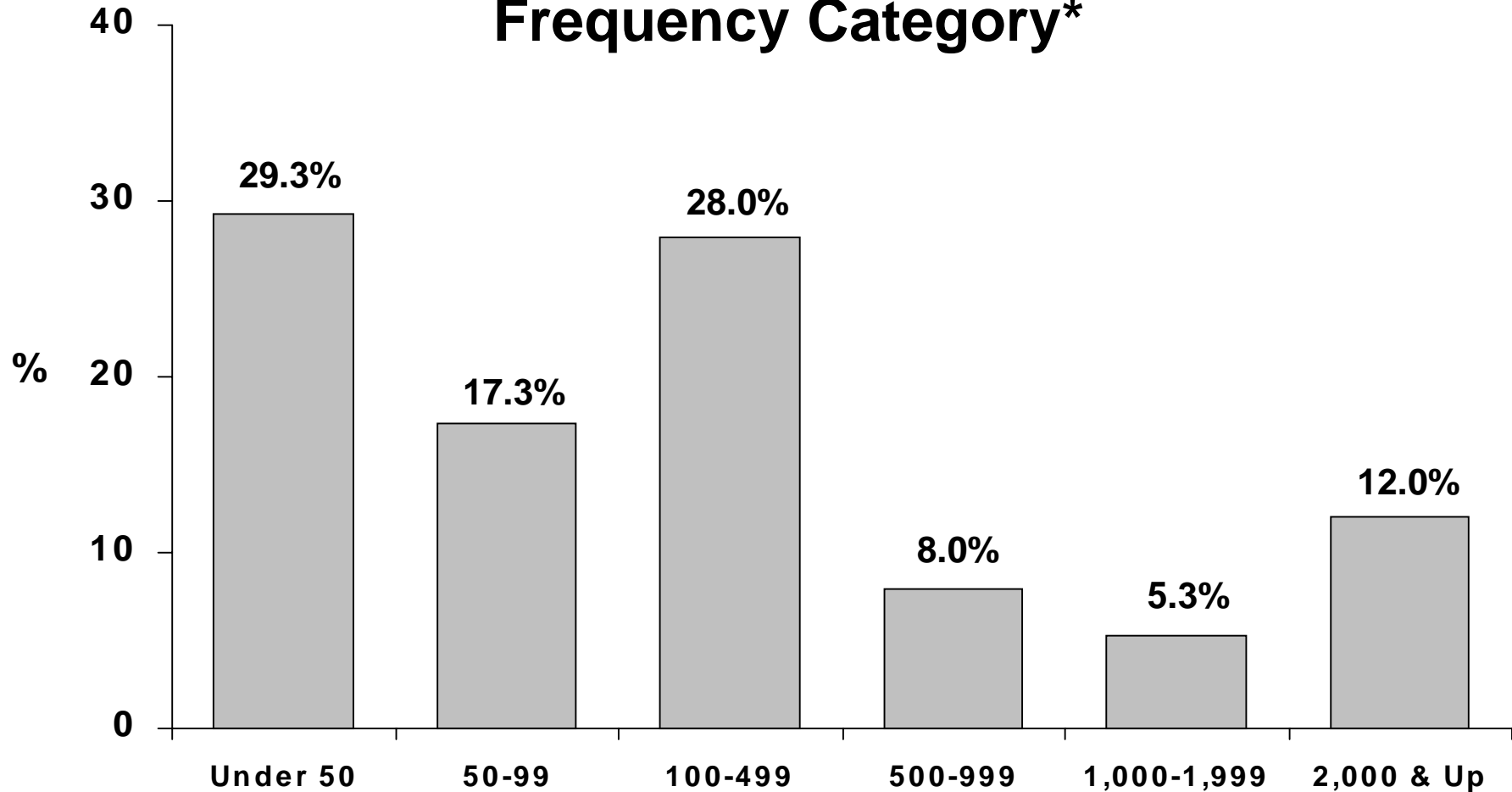
# Percent Of Sample Offering Each Type Of Loan Product



- Although 79.1% of the overall sample offered home improvement loans, only 54.5% of the Regulated Lenders/Mortgage Companies did so.

- 9a) Since January, 1998, approximately how many home equity loan applications have you received from consumers in the state of Texas?

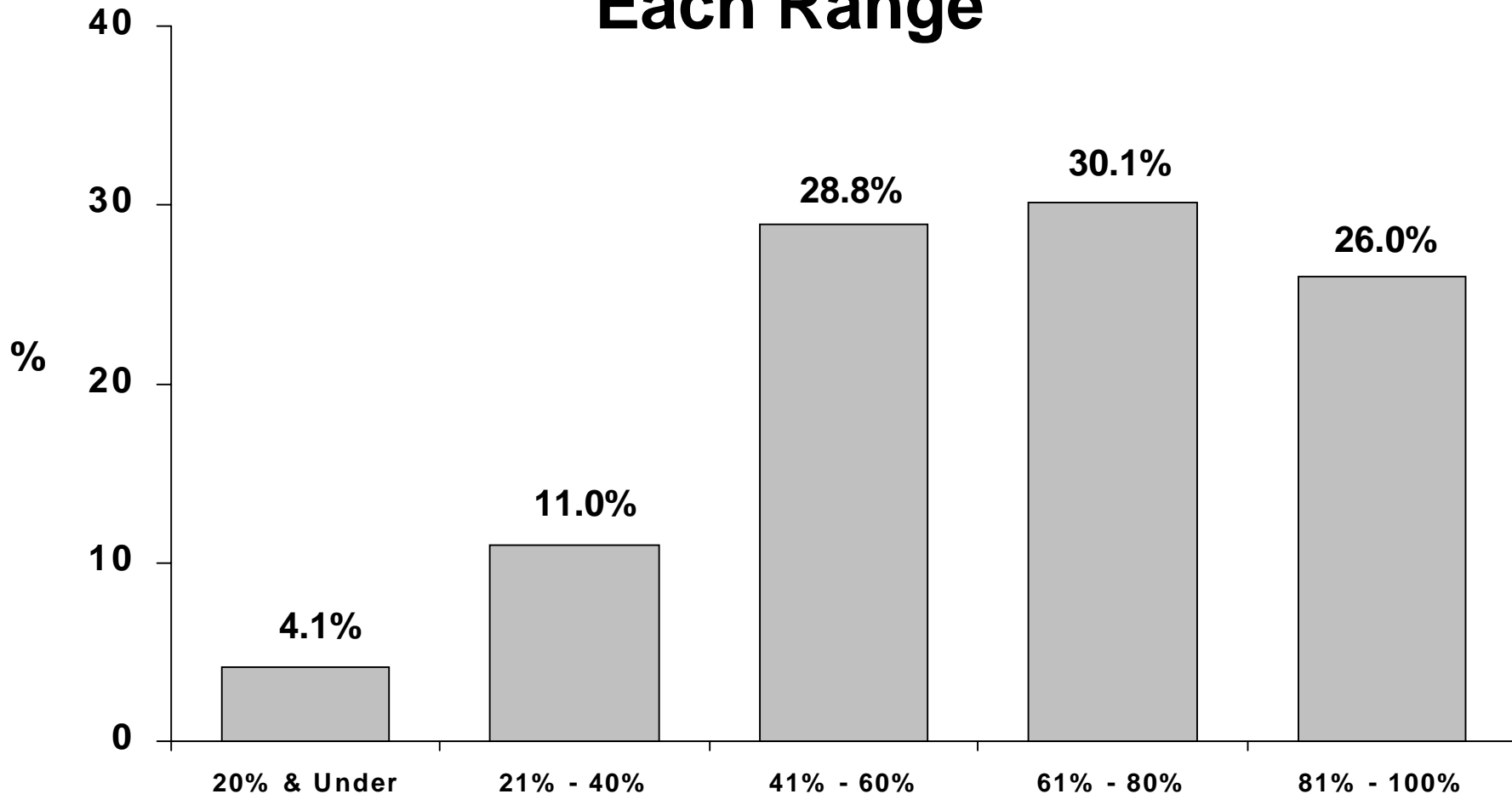
## Percent Of Financial Institutions In Each Frequency Category\*



\* Note unequal ranges in the categories.

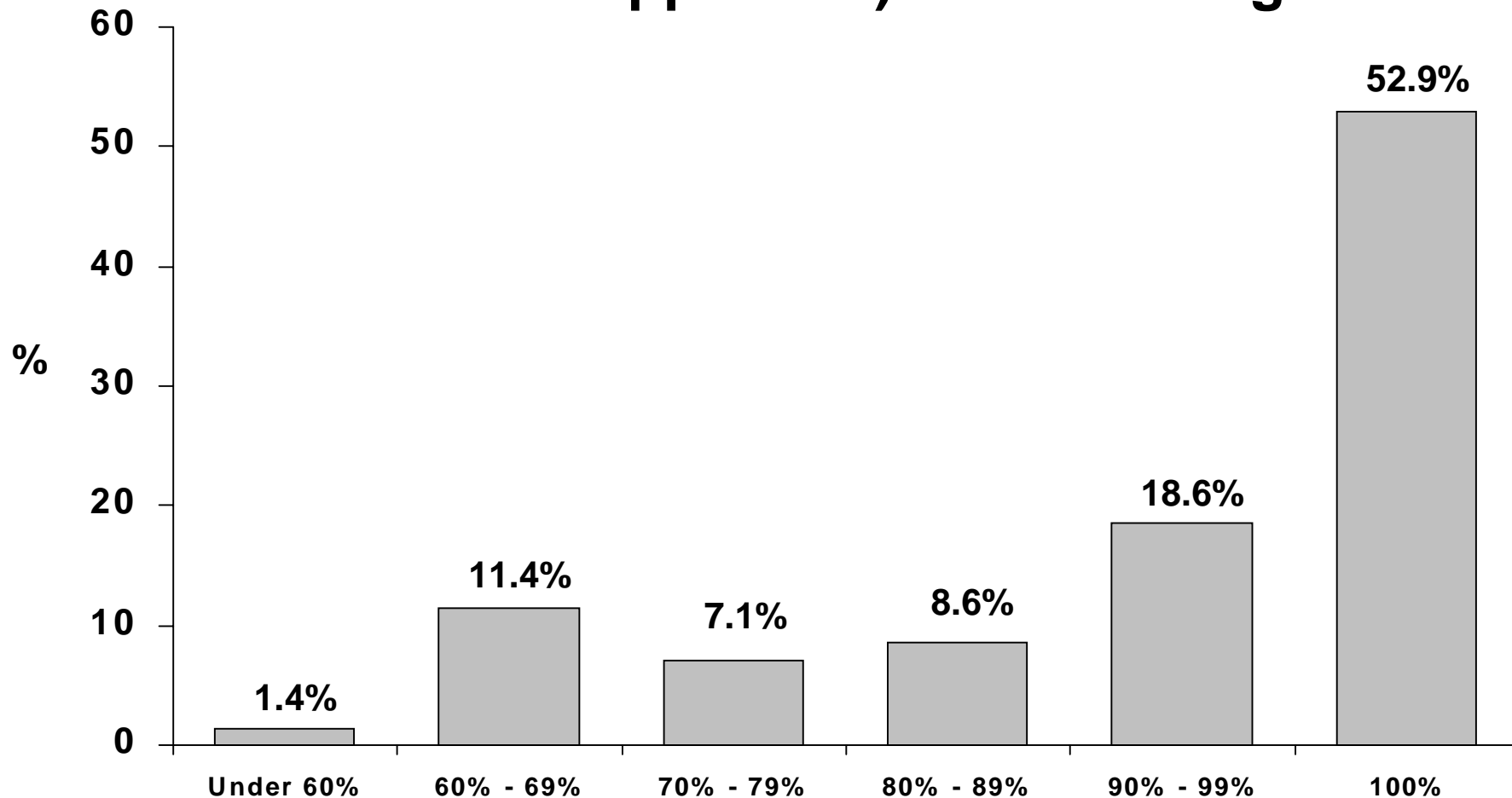
- The 75 FIs which were able to provide application numbers reported a total of 277,706 home equity loan applications since January, 1998.
- Of course, larger institutions received more applications.

# Percent Of FIs Reporting Approval Rates In Each Range



- Approval percentages from the FIs ranged from a low of 14% to a high of 100% and averaged 65.6%. Note that this is a simple average across the FIs and not weighted by the number of applications they received.
- The 73 FIs which were able to provide approval numbers reported a total of 105,823 approved applications since January, 1998.
- Average approval rates were different by institution type: Banks (66.6%); Savings Banks (78.8%); Credit Unions (74.5%); and Regulated Lenders/Mortgage Companies (58.1%).

# Percent Of FIs Reporting Completion Rates (As A Percent Of Approvals) In Each Range



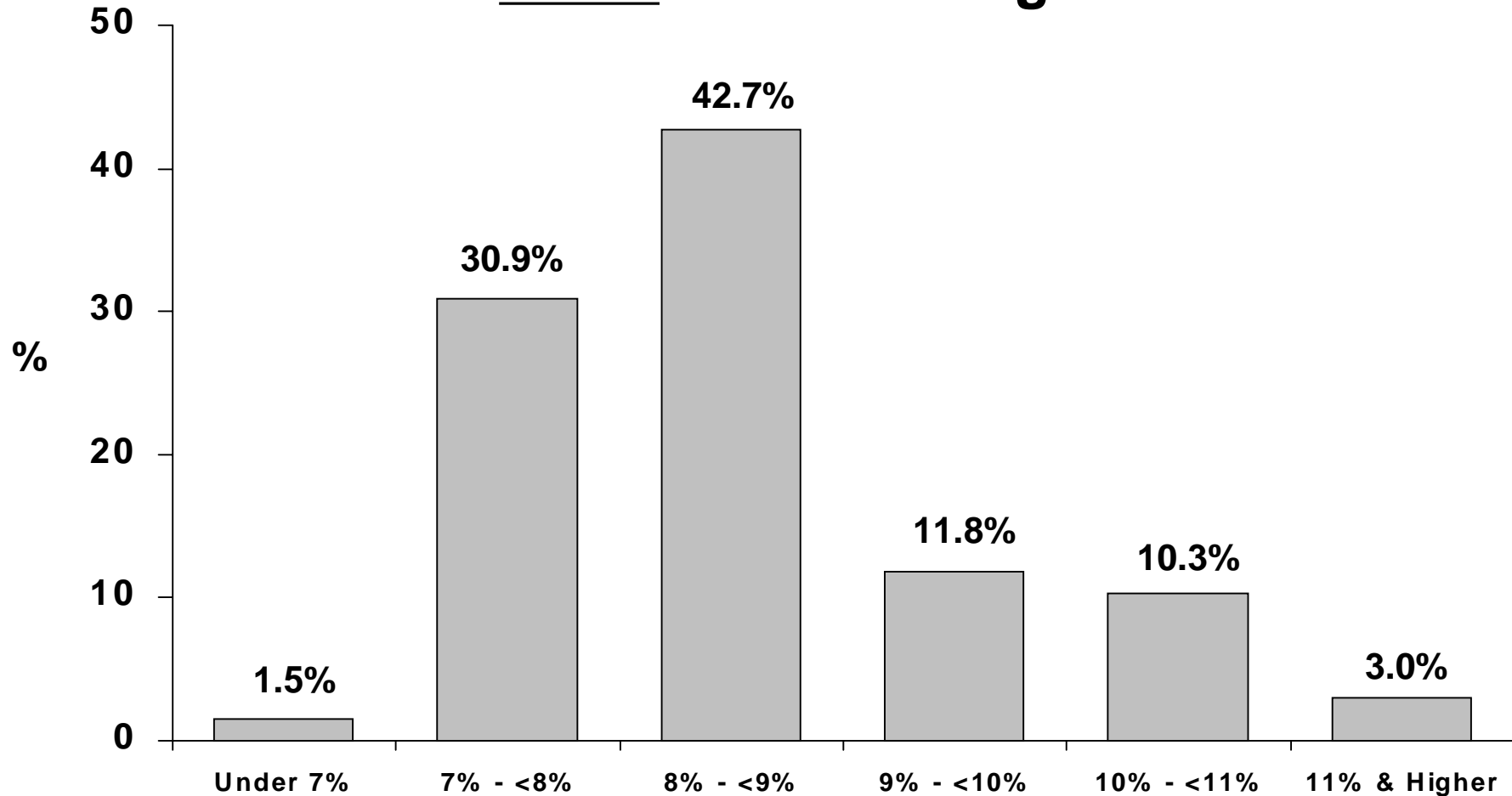
- Completion percentages from the FIs ranged from a low of 51.9% to a high of 100% and averaged 90.9%.
- Completion percentages were different by size: Small (96.5%); Medium (89.5%); and Large (83.9%).
- Completion percentages were different by location: Urban (86.0%); Rural (96.3%).

- **72 financial institutions were able to report complete data on applications, approvals, closings, and dollars. Because we have data on all four variables for these 72 we can create a coherent picture of totals.**
- **These 72 FIs reported a total of 267,716 applications.**
- **Of these, a total of 105,819 were approved, a 39.5% rate.**
- **Of the 105,819 approved, a total of 80,755 were completed, a 76.3% rate.**
- **These 80,755 loans amounted to a total of \$3,032,567,000 and an average amount of \$37,553 per loan.**
- **Note: One financial institution reported well over 100,000 of the 267,716 applications. This particular FI also reported an unusually low approval rate of under 20%. If this FI is eliminated, the remaining 71 had an approval rate of 61.7%. The rest of the numbers are in the same range as those cited above.**

# Interest Rate Amounts

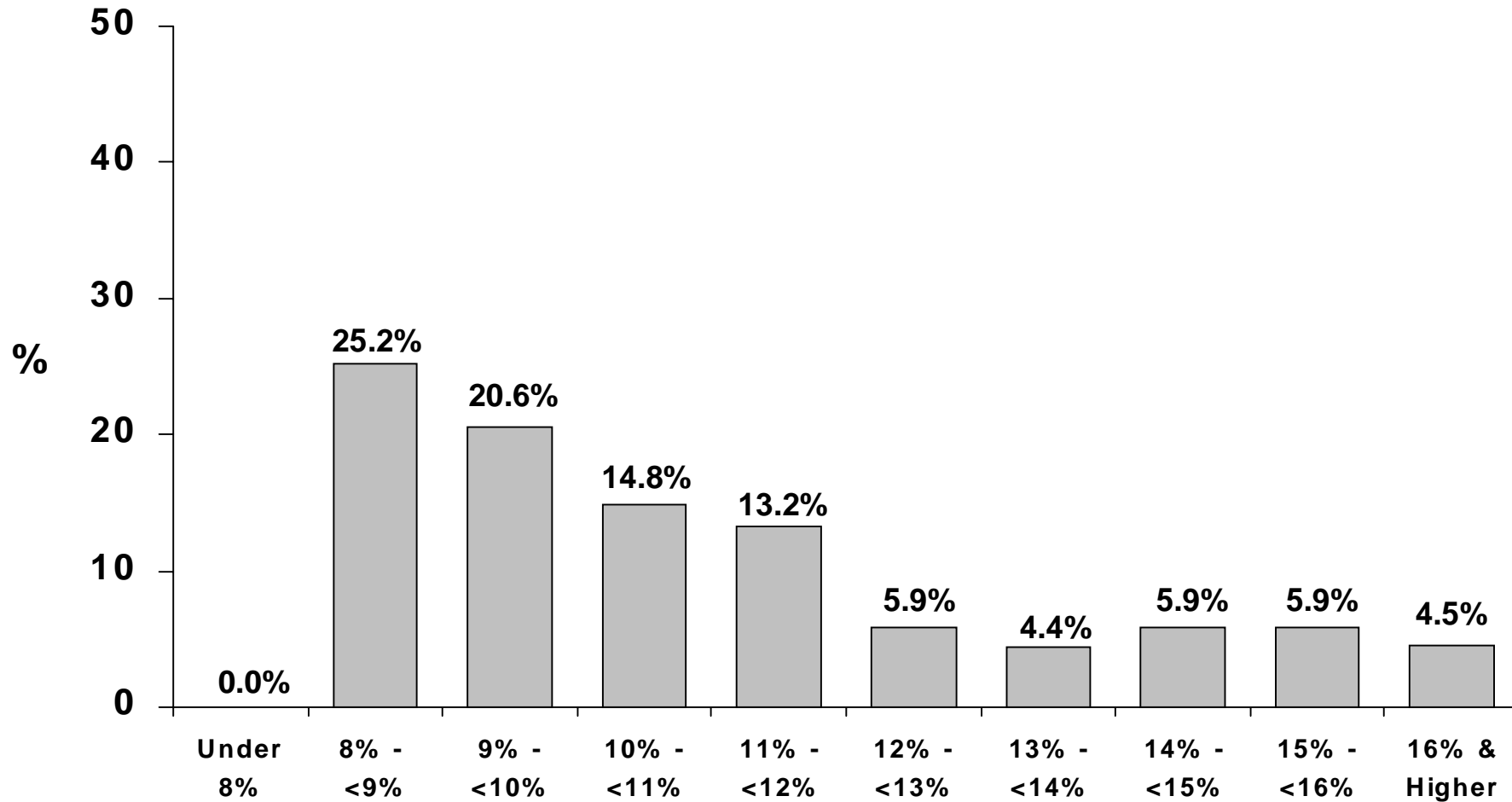
- Respondents were asked to describe the standard terms under which the majority of their home equity loans were made. Over 73% however, said there was no typical loan or no single loan that constituted a majority and instead gave ranges. For each of these responses we identified the minimum interest rate cited, the maximum interest rate cited and the factors on which the interest rate depended.

# Percent Of Respondents Citing Minimum Interest Rates In Each Range



- The minimum interest rate ranged from a low of 6.89% to a high of 12.0% and averaged 8.47%.
- The average minimum interest rate cited varied by Type of Financial Institution: Banks (8.22%); Credit Unions (7.77%); Savings Banks (8.29%); and Regulated Lenders/Mortgage Companies (9.15%).

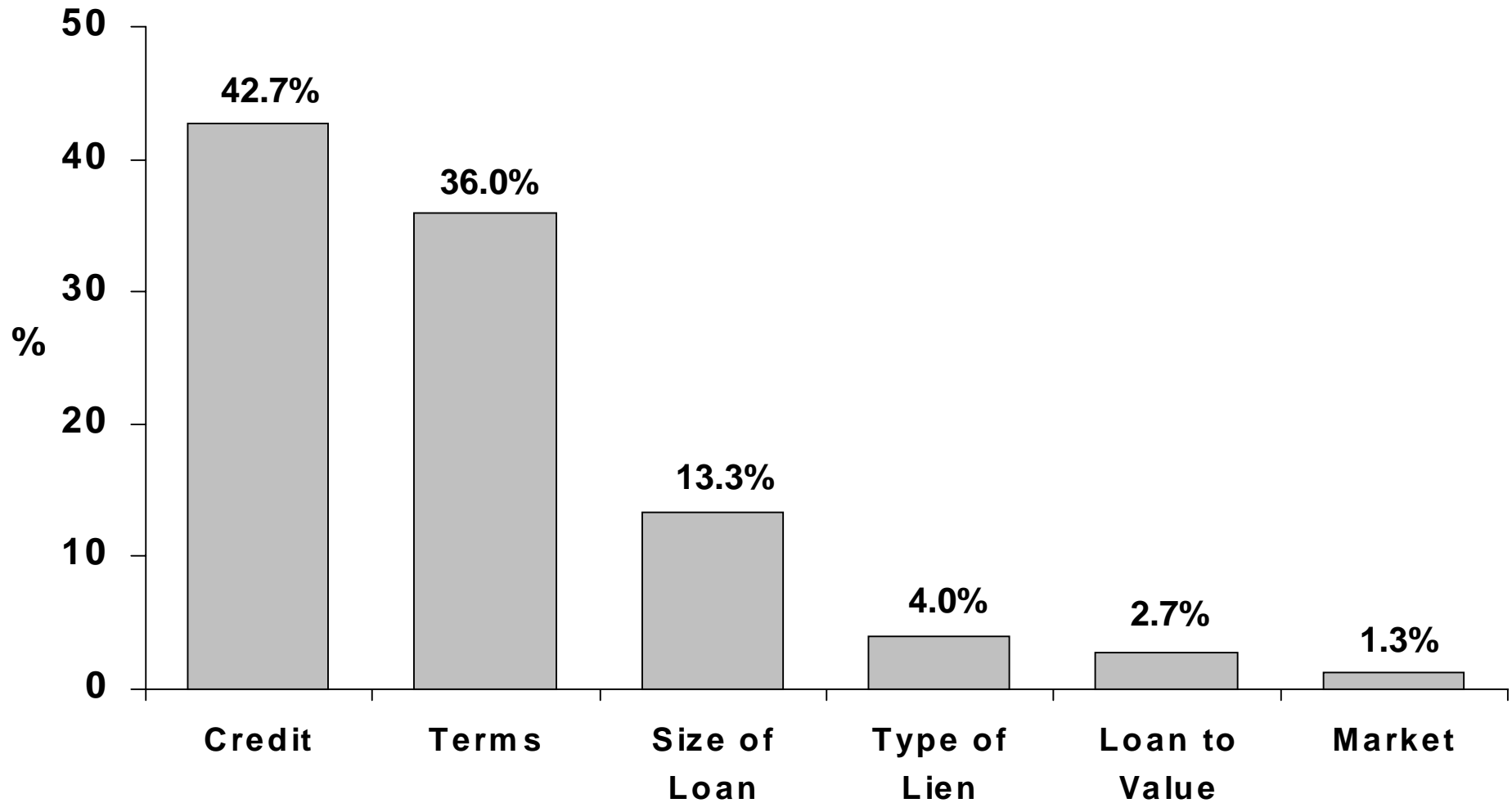
# Percent Of Respondents Citing Maximum Interest Rates In Each Range



- The maximum interest rate ranged from a low of 8.0% to a high of 18.0% and averaged 10.83%.
- The average maximum interest rate cited varied by Type of Financial Institution: Banks (9.98%); Credit Unions (9.70%); Savings Banks (9.48%); Regulated Lenders/Mortgage Companies (12.77%).

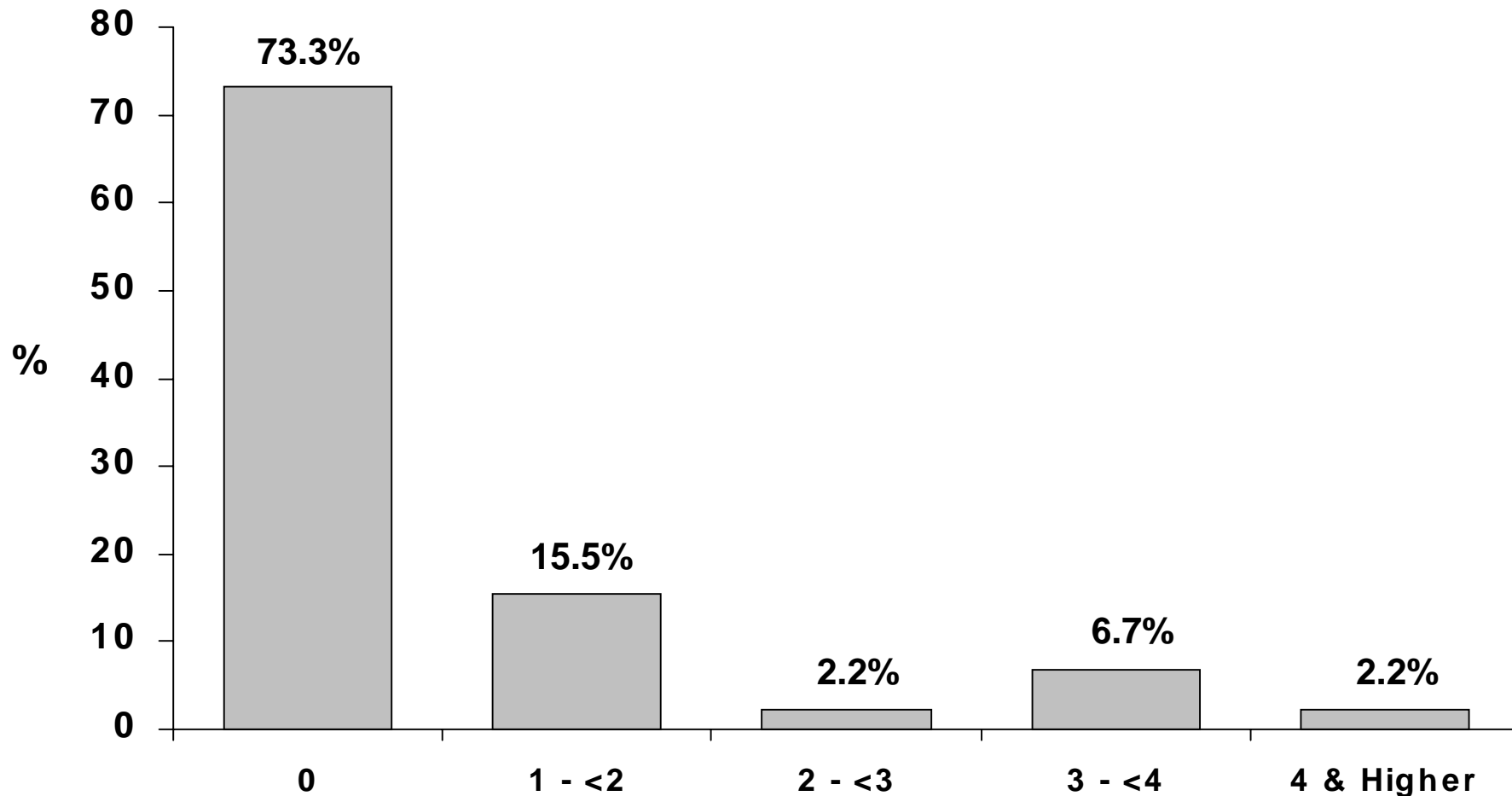


# Percent Of Respondents Indicating That Interest Rates Primarily Depended On Each Factor



- Although 42.7% of the overall sample said interest rates varied based on credit, 88.9% of the Regulated Lenders/Mortgage Companies cited credit as a reason for varying interest rates.

# Percent Of Respondents Citing Points In Each Range



- If any points were charged, the average was 2.06. Factoring in the 0 points results in an average of .55.
- Overall, 11.1% of respondents specifically mentioned that points were used to buy down interest rates. Approximately 25% of Savings Banks and Regulated Lenders/Mortgage Companies mentioned this.
- Although in the overall sample only 26.7% of the FIs said they charged any points, among Regulated Lenders/Mortgage Companies 50% said they charged some points.

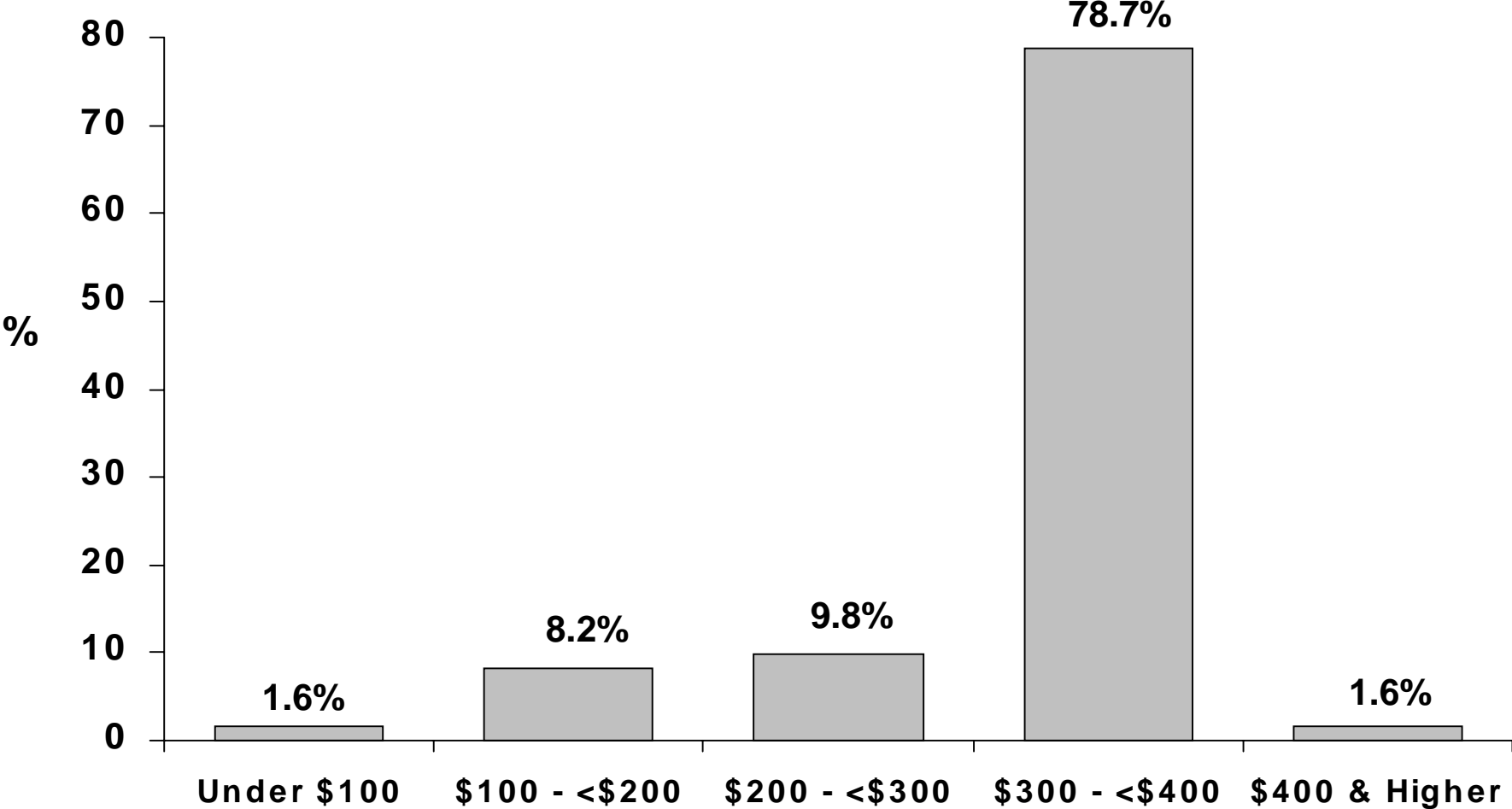
## ■ Appraisal Source

- ◆ 82.4% of the respondents mentioned obtaining a full appraisal and 63.7% mentioned sometimes using tax records. Typically, tax records were used for smaller loan amounts and mentioned less often by Regulated Lenders/Mortgage Companies (27.3%).

## ■ Title Policy

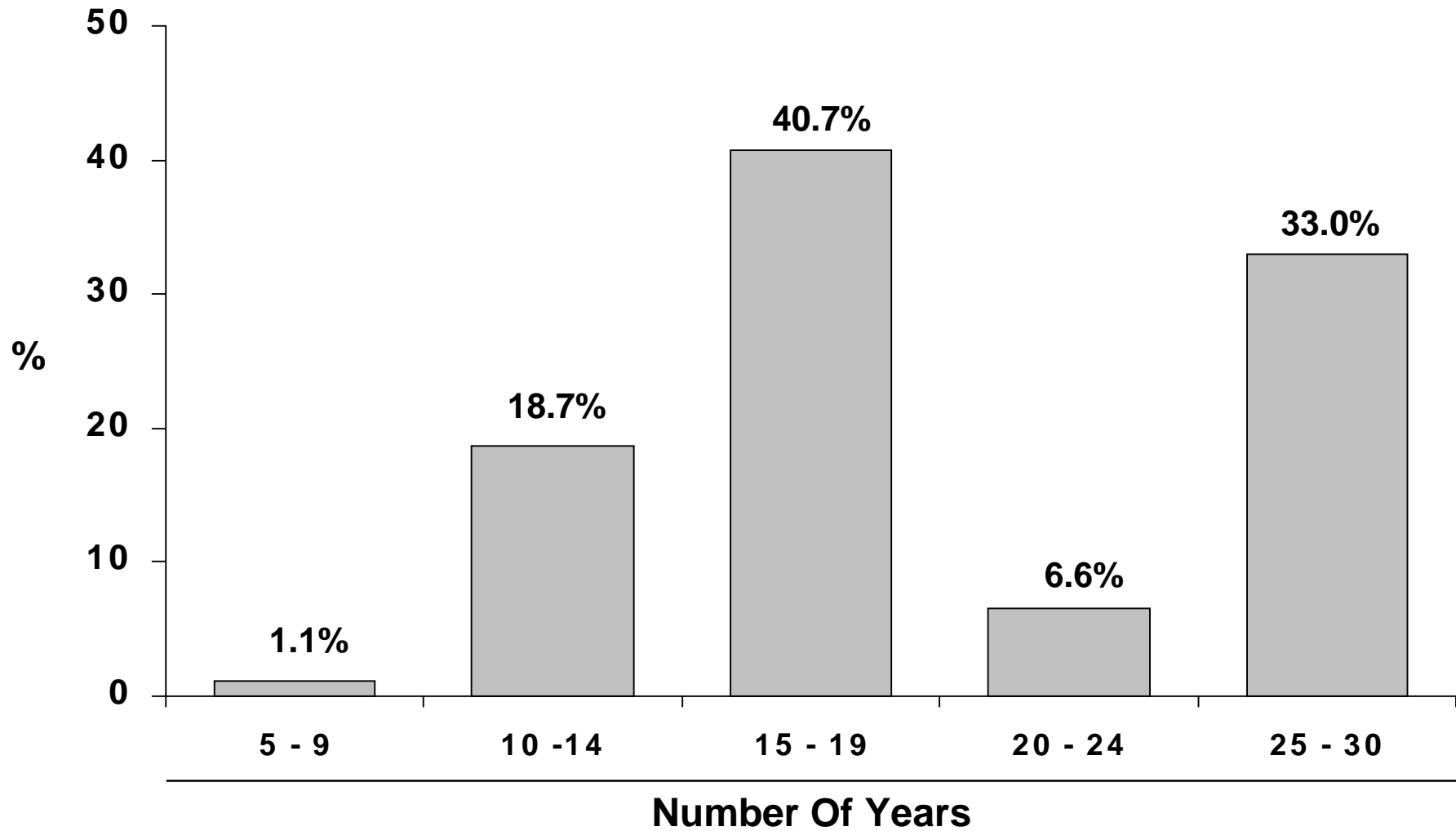
- ◆ 29.7% said they obtained a title policy, (63.6% of Regulated Lenders/Mortgage Companies said they obtain a title policy)
- ◆ 19.8% said they did not, and
- ◆ 50.5% said that it would depend:
  - ◆ on the loan amount (84.8%)
  - ◆ or whether they had the first lien (15.2%).

# Percent Of Respondents Citing Appraisal Costs In Each Range



- Appraisal cost numbers ranged from a low of \$75 to a high of \$400 and averaged \$302.

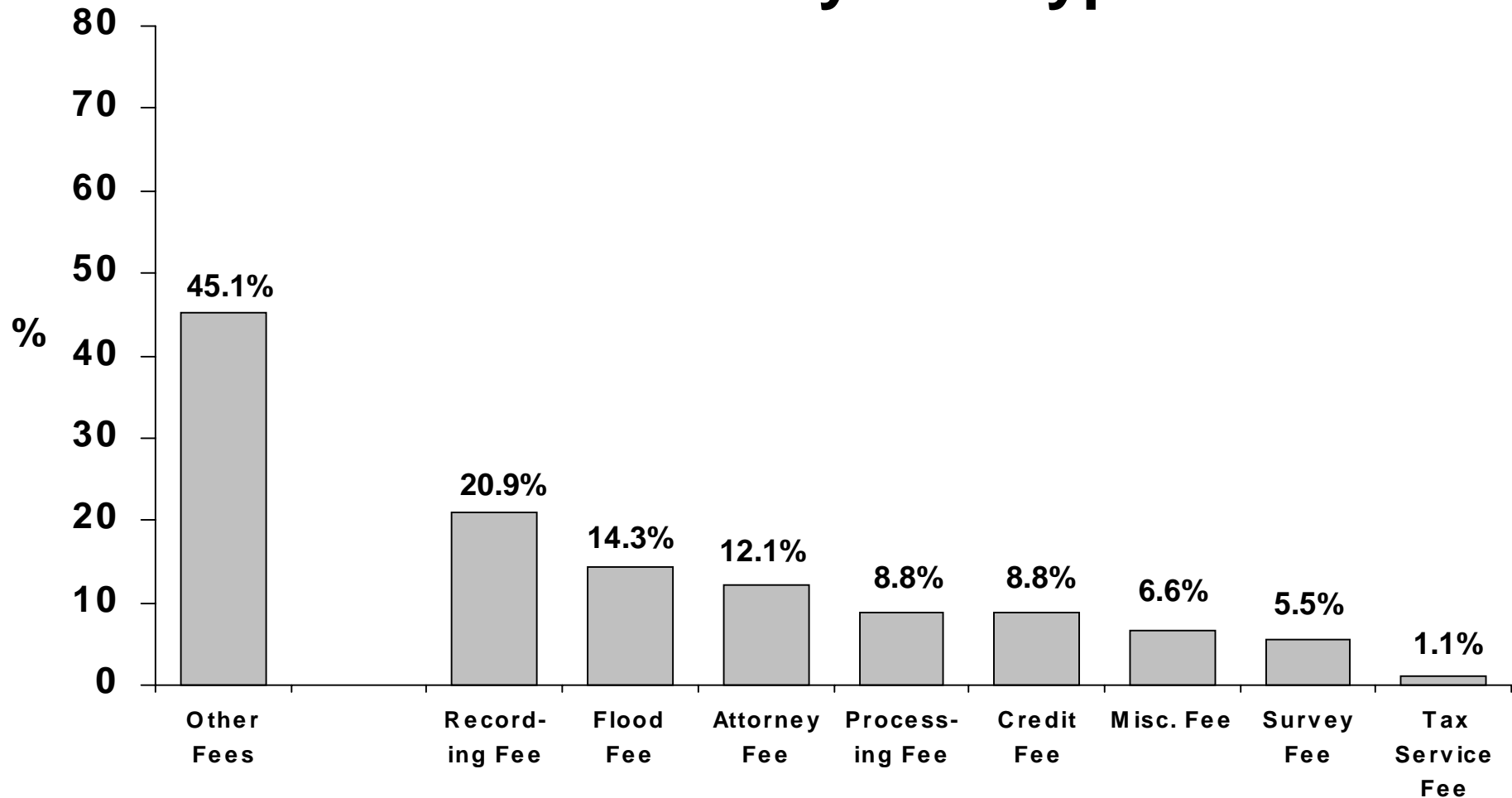
# Percent Of Respondents Citing Each Amortization Option As Their Maximum



# Amortization Options

- **Amortization options ranged from 5 to 30 years and averaged 19. Typically, Banks, Credit Unions, and Savings Banks averaged around 15 years and the Regulated Lenders/Mortgage Companies were around 30.**
- **3.3% of respondents cited loan to value ratios up to 60%, 12.1% cited ratios between 70% and 79%, and 84.6% allowed ratios up to 80%.**

# Percent Of Respondents Citing Other Fees: Overall And By Fee Type



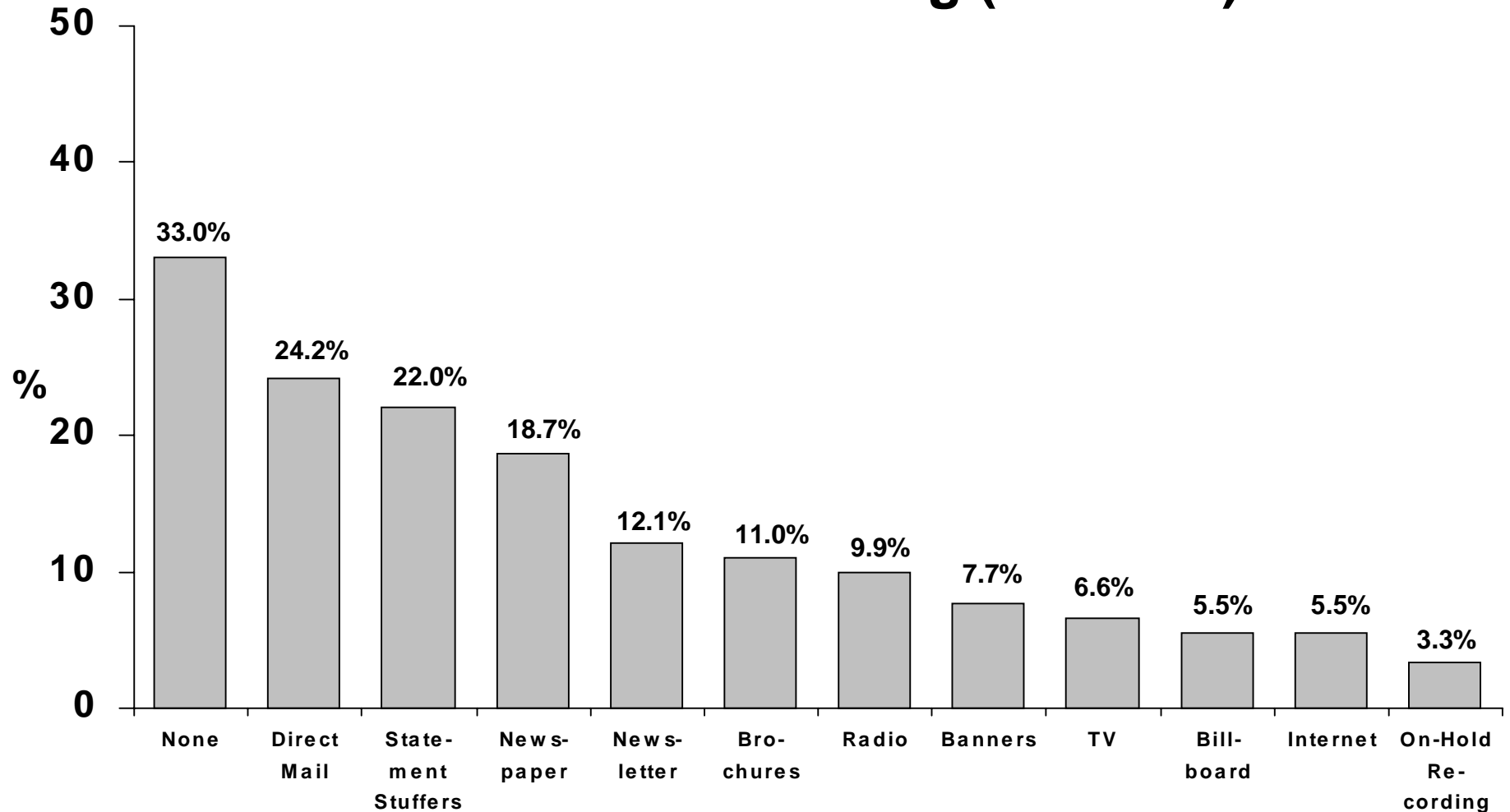
- Of the “Other” fee amounts, 56.3% were under \$100, 31.2% were between \$100 and \$200 and 12.5% were over \$200. The average was \$121.

# Other Options For Unqualified Borrowers / Effect Of First Mortgage

- Only 25.3% of respondents said they had other options available for unqualified borrowers. About half of those said they would refer customers to other lenders.
- Only 23.1% said that holding a first mortgage would make them more likely to grant a home equity loan. Reasons for the positive effect were evenly divided between “knowledge of the payment history” and “less risk”.

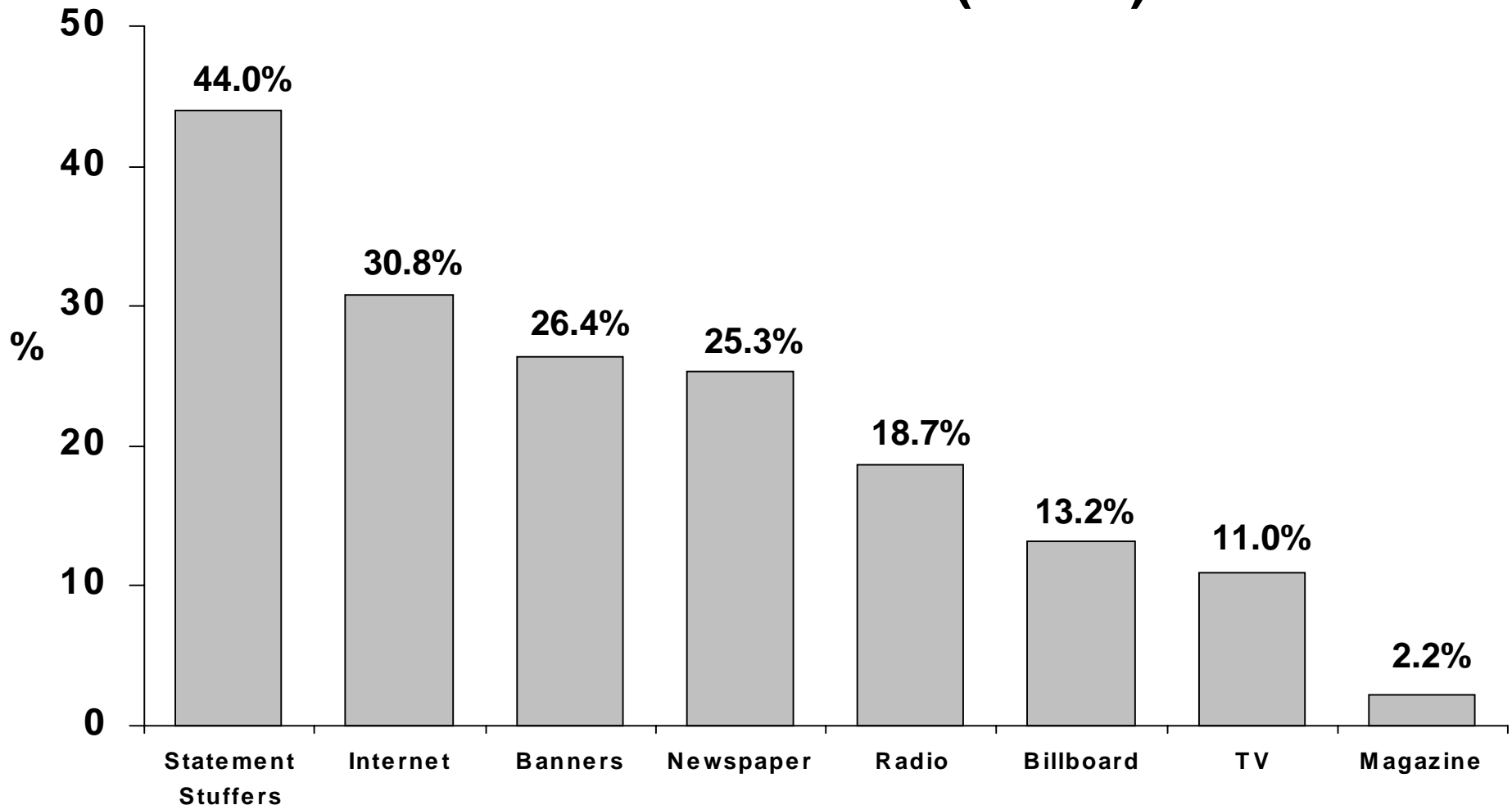


# Percent Of Respondents Mentioning Each Type Of Promotion Or Advertising (Unaided)



- Banks and Credit Unions were more likely to mention statement stuffers than the other types of financial institutions.
- Credit Unions were more likely to mention newsletters (84.6%).
- Larger institutions were more likely to engage in direct mail and smaller institutions were more likely to do no advertising.

# Percent Of Respondents Who Said They Had Used Each Type Of Promotion Or Advertising When It Was Mentioned To Them (Aided)



- Regulated Lenders/Mortgage Companies were less likely to mention Statement Stuffers and Banners.
- Larger institutions were more likely to use Radio, Billboards, and Banners than smaller institutions.

- **4a) Based on your financial institution’s experience with home equity lending, if you could change any aspect of home equity lending laws in the state of Texas, what changes would you make?**

## **Percent Mentioning Each Change (Unaided)**

<b>Percent</b>	<b>Change</b>
29.7%	Remove the one-acre limitation (Larger institutions mentioned this more often.)
26.4%	Remove the 3% fee limitation
19.8%	Remove the 12-day waiting period
19.8%	Remove the 80% loan to value cap (Only 1 Bank mentioned this. More mentions came from urban lenders.)
17.6%	Remove the severe penalty (loss of principal and interest) due to one mistake
14.3%	Allow a line of credit
13.2%	Use traditional foreclosure rules
13.2%	Remove the agricultural exemption (All 12 mentions came from rural lenders.)
11.0%	Remove the non-recourse and no personal liability clause (All mentions came from Banks.)
8.8%	More clarity in the regulations so lenders better understand the rules
7.7%	Remove the 12-month wait for new application
5.5%	Drop the once home equity, always home equity requirement
5.5%	Remove the urban/rural distinction
4.4%	No changes
3.3%	Remove limitations on where closings can take place
3.3%	Clarify which charges fall within the 3% fee cap

- 4b) Of the changes mentioned, which change would you most like to see?

## Percent Selecting Each Change From Their Unaided List As The One They Would Most Like To See

Percent	Change
13.2%	Remove the one-acre limitation
11.0%	Allow a line of credit
8.8%	Remove the 3% fee limitation
8.8%	Remove the non-recourse and no personal liability clause
8.8%	Remove the severe penalty (loss of principal and interest) due to one mistake
8.8%	Remove the 80% loan to value cap
7.7%	Remove the 12-day waiting period
7.7%	Remove the agricultural exemption
6.6%	Use traditional foreclosure rules
4.4%	No changes
4.4%	More clarity in the regulations so lenders better understand the rules
3.3%	Remove the urban/rural distinction
2.2%	Clarify which charges fall within the 3% fee cap
2.2%	Remove the 12-month waiting period for new application
1.1%	Allow bi-weekly payments
1.1%	Drop the once home equity, always home equity requirement

- **4c) What changes do you think your borrowing customers would like to see made?**

## **Percent Mentioning Each Change (Unaided)**

<b>Percent</b>	<b>Change</b>
<b>26.4%</b>	<b>Remove the 12-day waiting period</b>
<b>25.3%</b>	<b>Remove the 80% loan to value cap (Only 5.3% of Banks mentioned this.)</b>
<b>17.6%</b>	<b>Remove the one-acre limitation</b>
<b>15.4%</b>	<b>Allow a line of credit</b>
<b>14.3%</b>	<b>No changes</b>
<b>11.0%</b>	<b>Remove the agricultural exemption (More mentions came from rural lenders.)</b>
<b>8.8%</b>	<b>Provide more education to the borrower</b>
<b>4.4%</b>	<b>Remove the 12-month waiting period for new application</b>
<b>2.2%</b>	<b>Have less paperwork</b>
<b>2.2%</b>	<b>Let the borrower pay the fees</b>
<b>2.2%</b>	<b>Remove the urban/rural distinction</b>
<b>2.2%</b>	<b>Remove the 3% fee cap</b>
<b>1.1%</b>	<b>Drop the once home equity, always home equity requirement</b>
<b>1.1%</b>	<b>Allow the pledging of additional collateral</b>

- 4d) Of the changes mentioned, which change do you believe they would value the most?

## Percent Selecting Each Change From Their Unaided List As The One They Think Borrowers Would Value The Most

Percent	Change
19.8%	Remove the 80% loan to value cap
18.7%	Remove the 12-day waiting period
14.3%	No changes
12.1%	Allow a line of credit
9.9%	Remove the agricultural exemption
9.9%	Remove the one-acre limitation
3.3%	Provide more education to the borrower
2.2%	Remove the 12-month waiting period for new application
2.2%	Have less paperwork
2.2%	Remove the 3% fee cap
1.1%	Remove the urban/rural distinction
1.1%	Allow the pledging of additional collateral
3.3%	Not sure

- 5) Now we have a list of specific factors in the laws governing home equity lending. For each factor please use a "1" to "10" scale to indicate how much you would like to see a change. A "10" means you would definitely like to see a change and a "1" means you definitely would like to see the law left as it is. For those factors you would like to see changed, please indicate the nature of the change you would like to see.

**Percent Rating “8, 9, Or 10” On The “Definitely Change” End Of The Scale And The Percent Rating “1, 2, Or 3” On The “Definitely Leave As Is” End Of The Scale And The Percent Difference In Favor Of Changing**

<u>Item</u>	<u>% Change</u>	<u>% Leave As Is</u>	<u>% Difference</u>
<b>3% Fee Cap</b>	<b>46.2%</b>	<b>27.5%</b>	<b>18.7%</b>
<b>12 day waiting period</b>	<b>39.6%</b>	<b>26.4%</b>	<b>13.2%</b>
<b>Loan is non-recourse beyond homestead</b>	<b>41.8%</b>	<b>34.1%</b>	<b>7.7%</b>
<b>Agricultural property ineligible</b>	<b>44.0%</b>	<b>38.5%</b>	<b>5.5%</b>
<b>No line of credit</b>	<b>33.0%</b>	<b>40.7%</b>	<b>-7.7%</b>
<b>One-year wait before new application</b>	<b>28.6%</b>	<b>46.2%</b>	<b>-17.6%</b>
<b>80% loan to value cap</b>	<b>26.4%</b>	<b>56.0%</b>	<b>-29.6%</b>
<b>Prohibition on additional collateral</b>	<b>22.0%</b>	<b>59.3%</b>	<b>-37.3%</b>
<b>Limit of one home equity loan per homestead</b>	<b>12.1%</b>	<b>73.6%</b>	<b>-61.5%</b>

- **There were differences in the percent of each FI type that wanted to see the 3% fee cap increased:**
  - ◆ **Banks (34.2%)**
  - ◆ **Credit Unions (7.7%)**
  - ◆ **Savings Banks (57.1%)**
  - ◆ **Regulated Lenders/Mortgage Companies (72.7%)**
  
- **There were differences in the percent of each FI type that wanted to see the 80% Loan to Value cap increased:**
  - ◆ **Banks (7.9%)**
  - ◆ **Credit Unions (23.1%)**
  - ◆ **Savings Banks (42.9%)**
  - ◆ **Regulated Lenders/Mortgage Companies (45.5%)**



## Nature of Suggested Changes

- For five of the suggested change items no elaboration was necessary or given. For four of the items we summarize the elaboration below.
  - ◆ **3% fee cap:**
    - 1) 61.2% said to raise it (5% and 8% were suggested)
    - 2) 26.5% said to eliminate it
    - 3) 12.2% said to allow the FI to pass on actual charges
  
  - ◆ **12-day waiting period:**
    - 1) 65.1% said to eliminate it
    - 2) 34.9% said to shorten it
  
  - ◆ **One-year wait for new application:**
    - 1) 70.6% said to eliminate it
    - 2) 26.5% said to shorten it
    - 3) 2.9% said to let the loan to value guide this
  
  - ◆ **80% loan to value cap:**

23 respondents suggested increasing it anywhere from 90% to 125%. The average of the suggestions was 95%.

- 6) When home equity loan applications have been turned down what have been the primary reasons, in rough order of frequency?

## Percent Mentioning Each Reason For Turndowns

<u>Percent</u>	<u>Reason</u>
71.4%	Bad credit
70.3%	Loan to value cap / Not enough equity
26.4%	Debt to income ratio
15.4%	Acre limitation
3.3%	Too small for us
3.3%	No turndowns
2.2%	The 12-month wait
1.1%	Already had two liens
1.1%	Title issues

- 7) Are there any changes in the home equity foreclosure laws and rules you would like to see?

## Percent Mentioning Each Change In Foreclosure Rules

<u>Percent</u>	<u>Change</u>
47.3%	Make the same as other loans; non-judicial
34.1%	Haven't had any, so no opinion
15.4%	Like how it is, no changes

- 8) Is there any data that could be regularly collected by the state that would be helpful to you if it were published?

## Percent Mentioning Each Idea

Percent	Idea
54.9%	No / Can't think of anything
16.5%	A foreclosure incidence report
15.4%	Home equity activity levels by region
12.1%	Delinquencies
5.5%	Characteristics of typical loans
4.4%	Guidelines on making these loans / Educate us
4.4%	Commission plans on revising the laws
3.3%	Rates of our competitors
3.3%	A lawsuit report
2.2%	Brokers that have lost their licenses
1.1%	Turn down reasons

- 68.9% of respondents say they keep the loans in-house, 21.1% say they sell them, and 10.0% do both. The vast majority of the Banks (94.7%), Credit Unions (100.0%) and Savings Banks (100.0%) keep the loans in-house.