

A Reprint from *Tierra Grande*

# TAKING MORTGAGE COSTS SERIOUSLY

BY ALI ANARI



The housing crisis that began in 2005 and is still going on has been blamed on declining lending standards, easy initial terms for mortgage loans, unrealistic loan incentives, securitization practices, inaccurate credit ratings, Federal Reserve Bank policies, greedy mortgage loan brokers, credit default swaps and a host of other faults. But at the heart of the crisis is the American dream of homeownership, which blinded many borrowers to the true costs of owning a home.

An ongoing research program at the Real Estate Center at Texas A&M University looks at a number of statistics related to homeownership costs in the state of Texas and its metropolitan areas. The purpose of the research is to give prospective homeowners, especially first-time homebuyers, a more realistic understanding of the costs of homeownership when financed by mortgage loans.

The research results reported here were not published earlier because Texas residential markets did not experience the home price boom followed by the price bust and its effects on housing and financial markets.

The Center studied the burden of mortgage costs using Texas data. The method used is applicable to other regions of the United States because the data used are from housing surveys done by the Census Bureau, which provides data for all states and metropolitan areas.

### Residential Mortgage Loans

Taking out a mortgage loan to buy a home is generally seen as a sound move. By paying the costs of a mortgage, buyers can fulfill the dream of homeownership and, over time, buy bigger homes.

The number of owner-occupied housing units with a mortgage in Texas in 2007 was 3,431,383 units out of a total of 5,373,524 units, or about 63.9 percent compared with 68.4 percent for the nation in the same year (Table 1).

The Austin-Round Rock metro area had the highest percent of housing units with a mortgage (74.8 percent; Table 1), followed by Dallas-Fort Worth-Arlington (74 percent), Houston-Sugar Land-Baytown (69.6 percent) and Killeen-Temple-Fort Hood (68.4 percent). Odessa had the lowest percentage of homes with a mortgage (45.8 percent), followed by McAllen-Edinburg-Mission (45.9 percent) and Beaumont-Port Arthur (48.3 percent).

The median price of homes with a mortgage in the United States in 2007 was \$216,400 compared with \$149,200 for housing units without a mortgage (Table 2). The median price of housing units with

a mortgage in Texas in 2007 was \$136,100 compared with \$90,800 for homes without a mortgage. The median value of housing units without a mortgage loan in Texas in 2007 was about 66.7 percent of the median value of housing with a mortgage compared with 68.9 percent for the nation.

The gap between housing units with a mortgage and without a mortgage (Table 2) was largest for McAllen-Edinburg-Mission (61.1 percent), followed by Laredo (64.6 percent), Brownsville-Harlingen (65.6 percent) and San Antonio (66.5 percent). Austin-Round Rock and San Angelo had the lowest gap (93.4 percent), followed by Lubbock (87.5 percent) and Sherman-Denison (87.1 percent).

**Table 1. Owner-Occupied Housing Units in United States, Texas and Texas Metro Areas by Mortgage Status, 2007**

	Total Units	Units with Mortgage	Percent of Units With Mortgage
United States	75,515,104	51,615,003	68.4
Texas	5,373,524	3,431,383	63.9
Abilene	40,202	21,544	53.6
Amarillo	55,544	32,989	59.4
Austin-Round Rock	261,130	349,024	74.8
Beaumont-Port Arthur	47,854	99,151	48.3
Brownsville-Harlingen	41,852	79,785	52.5
College Station-Bryan	23,645	38,856	60.9
Corpus Christi	95,203	51,797	54.4
Dallas-Fort Worth-Arlington	1,354,752	1,003,057	74.0
El Paso	150,015	92,363	61.6
Houston-Sugar Land-Baytown	1,211,389	842,975	69.6
Killeen-Temple-Fort Hood	78,233	53,497	68.4
Laredo	40,619	24,286	59.8
Longview	52,415	25,665	49.0
Lubbock	62,182	37,615	60.5
McAllen-Edinburg-Mission	145,968	7,048	45.9
Midland	32,097	19,343	60.3
Odessa	33,205	15,204	45.8
San Angelo	29,376	16,427	55.9
San Antonio	444,213	299,210	67.4
Sherman-Denison	29,976	17,164	57.3
Tyler	49,529	28,387	57.3
Victoria	28,566	15,413	54.0
Waco	50,583	28,854	57.0
Wichita Falls	37,351	21,596	57.8

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

**Table 2. Median Value of Residential Units by Mortgage Status, 2007**

	With Mortgage	Without Mortgage	Percent of Value, Without Mortgage to with Mortgage
United States	\$216,400	\$149,200	68.9
Texas	136,100	90,800	66.7
Abilene	87,600	61,600	70.3
Amarillo	109,800	89,500	81.5
Austin-Round Rock	180,800	168,900	93.4
Beaumont-Port Arthur	97,200	72,400	74.5
Brownsville-Harlingen	87,200	57,200	65.6
College Station-Bryan	136,000	109,000	80.1
Corpus Christi	116,000	78,500	67.7
Dallas-Fort Worth-Arlington	153,300	117,500	76.6
El Paso	112,400	84,400	75.1
Houston-Sugar Land-Baytown	143,900	111,600	77.6
Killeen-Temple-Fort Hood	114,000	93,500	82.0
Laredo	119,300	77,100	64.6
Longview	109,700	85,600	78.0
Lubbock	101,200	88,600	87.5
McAllen-Edinburg-Mission	90,400	55,200	61.1
Midland	124,300	90,900	73.1
Odessa	83,500	60,000	71.9
San Angelo	86,600	80,900	93.4
San Antonio	133,100	88,500	66.5
Sherman-Denison	105,000	91,500	87.1
Tyler	130,300	106,800	82.0
Victoria	105,600	80,500	76.2
Waco	104,100	92,400	88.8
Wichita Falls	90,900	74,800	82.3

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

**Table 3. Median Monthly Costs of Homeownership by Mortgage Status, 2007**

	With Mortgage	Without Mortgage	Mortgage Cost	Mortgage Costs as Percent of Total Costs
United States	\$1,464	\$407	\$1,057	72.2
Texas	1,342	419	923	68.8
Abilene	1,002	381	621	62.0
Amarillo	1,075	397	678	63.1
Austin-Round Rock	1,539	525	1,014	65.9
Beaumont-Port Arthur	1,060	378	682	64.3
Brownsville-Harlingen	993	342	651	65.6
College Station-Bryan	1,238	415	823	66.5
Corpus Christi	1,276	447	829	65.0
Dallas-Fort Worth-Arlington	1,534	528	1,006	65.6
El Paso	1,005	334	671	66.8
Houston-Sugar Land-Baytown	1,484	500	984	66.3
Killeen-Temple-Fort Hood	1,161	404	757	65.2
Laredo	1,224	398	826	67.5
Longview	985	327	658	66.8
Lubbock	1,049	376	673	64.2
McAllen-Edinburg-Mission	1,028	317	711	69.2
Midland	1,195	390	805	67.4
Odessa	974	349	625	64.2
San Angelo	954	412	542	56.8
San Antonio	1,216	382	834	68.6
Sherman-Denison	1,163	452	711	61.1
Tyler	1,204	428	776	64.5
Victoria	1,074	363	711	66.2
Waco	1,140	433	707	62.0
Wichita Falls	1,038	431	607	58.5

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

## Median Homeownership Costs

Mortgage loans are costly. The median monthly cost of owner-occupied residential units with a mortgage in the United States in 2007 was \$1,464 compared with \$407 for housing units without a mortgage (Table 3). Of the \$1,464, \$1,057, or 72.2 percent of the median monthly cost of homeownership, is the cost of the mortgage.

In Texas, the median monthly cost of owner-occupied residential units with a mortgage in 2007 was \$1,342 compared with \$419 for housing units without a mortgage (Table 3). The monthly mortgage cost of \$923 accounted for 68.8 percent of the monthly cost of homeownership in Texas when home ownership is financed by mortgages (Table 3).

Among the Texas metropolitan areas, Austin-Round Rock had the highest cost of homeownership with a mortgage (\$1,539 per month), followed by Dallas-Fort Worth-Arlington (\$1,534 per month) and Houston-Sugar Land-Baytown (\$1,484 per month). San Angelo had the lowest monthly costs for homes with a mortgage (\$954 per month), followed by Odessa (\$974 per month) and Brownsville-Harlingen (\$993 per month).

Austin-Round Rock ranked first in terms of having highest monthly mortgage costs (\$1,014 per month), followed by Dallas-Fort Worth-Arlington (\$1,006) and Houston-Sugar Land-Baytown (\$984 per month). Looking at mortgage costs as a percentage of the total cost of homeownership, McAllen-Edinburg-Mission ranked first with the highest percentage of mortgage costs (69.2 percent), followed by San Antonio (68.6 percent), Laredo (67.5 percent) and Midland (67.4 percent).

Another way to make the costs of homeownership with and without a mortgage more understandable is to express them as a percentage of household income. The monthly costs of homes with mortgage loans accounted for 25.1 percent of owners' incomes in 2007 in the United States compared with 12.5 percent for homes without a mortgage (Table 4). In Texas, the monthly costs of homes owned with a mortgage loan accounted for 23.3 percent of households' income compared with 12.7 percent for homes without a mortgage.

Among the Texas metro areas, Laredo ranked first in percentage of household income paid each month for homes with a mortgage (28.7 percent), followed by Brownsville-Harlingen (26.5 percent) and McAllen-Edinburg-Mission (25.7 percent).

**Table 4. Median Monthly Owner Costs as a Percentage of Household Income, 2007**

	With Mortgage	Without Mortgage
United States	25.1	12.5
Texas	23.3	12.7
Abilene	22.1	12.0
Amarillo	22.3	11.0
Austin–Round Rock	24.0	12.3
Beaumont–Port Arthur	19.6	12.2
Brownsville–Harlingen	26.5	13.9
College Station–Bryan	23.0	11.0
Corpus Christi	23.8	14.8
Dallas–Fort Worth–Arlington	24.3	13.4
El Paso	24.5	12.6
Houston–Sugar Land–Baytown	23.3	12.3
Killeen–Temple–Fort Hood	22.5	12.0
Laredo	28.7	16.3
Longview	20.6	9.8
Lubbock	21.6	11.5
McAllen–Edinburg–Mission	25.7	13.7
Midland	19.6	11.0
Odessa	17.7	11.9
San Angelo	22.0	14.9
San Antonio	22.6	11.5
Sherman–Denison	23.3	13.7
Tyler	22.6	12.7
Victoria	21.3	11.7
Waco	23.1	12.7
Wichita Falls	21.6	12.5

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

**Table 5. Median Annual Real Estate Taxes Paid by Mortgage Status, 2007**

	With Mortgage	Without Mortgage	Difference
United States	\$2,099	\$1,306	\$ 793
Texas	2,834	1,194	1,640
Abilene	1,412	723	689
Amarillo	1,901	1,433	468
Austin–Round Rock	3,833	2,762	1,071
Beaumont–Port Arthur	1,557	718	839
Brownsville–Harlingen	1,671	811	860
College Station–Bryan	2,634	1,552	1,082
Corpus Christi	2,280	977	1,303
Dallas–Fort Worth–Arlington	3,456	1,917	1,539
El Paso	2,399	1,401	998
Houston–Sugar Land–Baytown	3,395	1,612	1,783
Killeen–Temple–Fort Hood	2,295	1,295	1,000
Laredo	2,718	1,426	1,292
Longview	1,497	854	643
Lubbock	1,955	1,156	799
McAllen–Edinburg–Mission	2,009	860	1,149
Midland	2,045	1,044	1,001
Odessa	1,186	615	571
San Angelo	1,299	942	357
San Antonio	2,733	1,366	1,367
Sherman–Denison	1,786	1,082	704
Tyler	1,891	1,189	702
Victoria	1,740	889	851
Waco	1,780	1,129	651
Wichita Falls	1,596	1,061	535

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

Odessa had the lowest percentage (17.7 percent), followed by Midland and Beaumont–Port Arthur (19.6 percent).

For homes without a mortgage, Laredo had the largest percentage of household income going toward homeownership costs (16.3 percent), followed by San Angelo (14.9 percent) and Corpus Christi (14.8 percent). Longview had the lowest percentage (9.8 percent), followed by College Station–Bryan and Midland (11 percent).

### Property Taxes Take Big Bite

The higher costs of homeownership with a mortgage compared with costs without a mortgage to a great extent reflect higher home prices financed by mortgage loans. But higher home prices also mean higher property taxes for homeowners. The property tax burden is especially significant in Texas because of the state's higher-than-national-average real estate taxes.

U.S. homeowners with a mortgage loan paid annual property taxes of \$2,099 in 2007, \$793 more than homeowners without a mortgage (Table 5). In Texas, homeowners with a mortgage loan paid annual property taxes of \$2,834 in 2007, \$1,640 more than homeowners without a mortgage.

Austin–Round Rock ranked first in amount of property taxes paid by homeowners with a mortgage (\$3,833), followed by Dallas–Fort Worth–Arlington (\$3,456) and Houston–Sugar Land–Baytown (\$3,395).

Odessa ranked lowest in property taxes paid by homeowners with a mortgage (\$1,186), followed by San Angelo (\$1,299) and Longview (\$1,497).

*The property tax burden is especially significant in Texas because of the state's higher-than-national-average real estate taxes.*

The difference between annual property tax payments with and without a mortgage was highest in Houston–Sugar Land–Baytown (\$1,783), followed by Dallas–Fort Worth–Arlington (\$1,539) and San Antonio (\$1,367).

The research shows that the monthly cost of owning a home can vary substantially

among U.S. cities. The low cost of housing in Texas means residents spend less of their total income on housing than the average American household. This, along with no personal income taxes, make Texas an attractive place for Americans and American businesses. ♦

Dr. Anari (m-anari@tamu.edu) is a research economist with the Real Estate Center at Texas A&M University.

### THE TAKEAWAY

Texas housing is a bargain. Nationally, the monthly cost of owning a home using a mortgage loan is 25.1 percent of household income. But in Texas, homeownership costs using a mortgage take only 23.3 percent of a household's income.



MAYS BUSINESS SCHOOL

Texas A&M University  
2115 TAMU  
College Station, TX 77843-2115

<http://recenter.tamu.edu>  
979-845-2031

**Director**, Gary W. Maler; **Chief Economist**, Dr. Mark G. Dotzour; **Communications Director**, David S. Jones; **Managing Editor**, Nancy McQuistion; **Associate Editor**, Bryan Pope; **Assistant Editor**, Kammy Baumann; **Art Director**, Robert P. Beals II; **Graphic Designer**, JP Beato III; **Circulation Manager**, Mark Baumann; **Typography**, Real Estate Center.

#### Advisory Committee

Ronald C. Wakefield, San Antonio, chairman; James Michael Boyd, Houston, vice chairman; Mona R. Bailey, North Richland Hills; Louis A. Cortes, China Grove; Jacquelyn K. Hawkins, Austin; Joe Bob McCart, Amarillo; D. Marc McDougal, Lubbock; Kathleen McKenzie Owen, Pipe Creek; Barbara A. Russell, Denton; and John D. Eckstrum, Conroe, ex-officio representing the Texas Real Estate Commission.

**Tierra Grande** (ISSN 1070-0234) is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Subscriptions are free to Texas real estate licensees. Other subscribers, \$20 per year. Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, Mays Business School or Texas A&M University. The Texas A&M University System serves people of all ages, regardless of socioeconomic level, race, color, sex, religion, disability or national origin. Photography/Illustrations: Real Estate Center files, p. 1.