



WHY ARE THERE SO MANY FORECLOSURES?

Property taxes are not the cause Many laws already protect homeowners against rising tax bills

Rising appraisals and property tax rates are often blamed for the recent increase in the number of foreclosures in Texas. Families fall behind in their home-related payments for many reasons, including high utility rates, expensive homeowners insurance, boosts in adjustable rate mortgages, and poor underwriting. Texas laws already provide homeowners many protections against increasing property taxes. The focus of efforts to reduce foreclosure rates and keep families in their homes should be on what is causing the problem, not on property tax rates and appraisals.

Texas' foreclosure rate is very high

Texas's foreclosure rate is the fifth highest of the 50 states and close to double the national average.

The problem is worse in our largest cities. The foreclosure rate in Dallas-Fort Worth is the highest among the nation's largest metropolitan areas and more than three and one-half times the national average. Foreclosure postings are now at their highest level since the 1980s. The number of homes posted for sale has increased by 50% in the past year.

Houston's foreclosure rate is more than twice as high as the U.S. average and fourth highest among metro areas. In some areas, such as Fort Bend County, there was one foreclosure filing for every 250 households, compared to a national average of one for every 1,000 households.

However, property tax rates and appraisals are not the culprit.

Property taxes are not the major cost of homeownership

Property taxes account for only one quarter of the total monthly housing cost for an average Texas home.

The monthly housing cost for a \$125,000 home is about \$1,250 per month. Half of this cost is the monthly mortgage payment of \$637, assuming a 6%, 30-year mortgage and a 15% down payment.

Utilities could cost \$250 per month, varying dramatically in different areas of the state. For instance, Houston homeowners pay electric rates that are twice the national average, while homeowners in cities with municipal electric utilities pay much less.

Insurance might add another \$100 per month. Texas homeowners pay higher premiums than homeowners in any other state. According to the National Association of Insurance Commissioners, the average premium in Texas in 2003 was \$1,328, compared to the national average of \$668.

Texas was the only state with an average premium over \$1,000.

Property taxes on this home would be roughly \$300 per month – only one quarter of the total \$1,250 monthly housing cost.

Adjustable rate mortgages and poor underwriting cause problems

Many foreclosures are linked to loose lending requirements, risky loans, and exotic mortgage instruments. For instance, many lower-income homebuyers turn to adjustable rate mortgages, rather than fixed-rate mortgages, because their lower initial interest rate allows buyers to qualify for a larger loan. But adjustable rates can sometimes double from one year to the next, catching families unprepared to meet the higher payments.

Some buyers of new homes have been quoted mortgage payments based on the property taxes on the bare lot, not on the value of the eventual home. If the buyer runs into trouble when escrow payments jump to reflect the taxes on the finished house, the blame should be placed on misleading underwriting, not on the level of property taxes.

Texas has a relatively high proportion of properties posted for foreclosure that are actually sold at foreclosure. In states with rapidly increasing home prices, an owner facing foreclosure can sell the property, meet all debts, and possibly even make a profit. Texas, despite complaints about appraisal increases, actually has one of the lowest rates of home appreciation in the nation. As a result, many Texas homeowners cannot sell their home at a price high enough to cure a default.

The Legislature has already provided many protections to homeowners

Texas law provides numerous property tax provisions that benefit homeowners. Many of these are rarely used – probably for lack

of knowledge – but offer the benefits sought by those who would arbitrarily cap appraisal increase or restrict local taxing decisions.

Homestead exemptions

Homeowners qualify for a \$15,000 exemption for school taxes, plus a \$3,000 exemption for county farm-to-market road or flood control taxes.

Any taxing district, including a school district, city, county, or special district, may offer an exemption of up to 20% of the value of a home, with a minimum of \$5,000. This optional percentage exemption is in addition to the dollar-amount homestead exemption.

Over-65 or disabled exemptions

Homeowners age 65 or older and persons with disabilities qualify for a \$10,000 exemption from school taxes, in addition to the \$15,000 basic homestead exemption. Taxing units, including school districts, may offer these homeowners an additional exemption of at least \$3,000.

Over-65 “tax freeze”

The amount of school taxes paid on a homestead is “frozen” when a homeowner reaches 65 years old. To be exact, a ceiling is established at the level of school taxes paid in the year in which the homeowner turns 65. Taxes can fall below this ceiling, but not rise above it, unless the home is improved. Recent legislation allows a city, county, or junior college district to adopt a tax ceiling. A similar freeze is available to disabled homeowners.

The school-tax ceiling can be transferred if an over-65 or disabled homeowner moves to another homestead in Texas. The new ceiling is based on the percentage of school tax paid in the former home, compared to the tax bill that would have been paid if there were no ceiling.

If the over-65 homeowner dies, the benefits can transfer to the surviving spouse, as long as he or she is 55 or older and lives in and owns the home. Benefits are also transferred to a surviving spouse who is disabled.

Over-65 or disabled deferred payments

Over-65 or disabled homeowners may defer paying property taxes on their home for as long as they own and live in it by filing a "tax deferral affidavit" with their appraisal district. This affidavit can suspend a lawsuit or halt a pending tax sale.

A deferral postpones the tax bill until 181 days after the homeowner or surviving spouse no longer owns the home or lives in it, when the tax bill becomes due, along with 8% annual interest.

Over-65 homeowners and disabled individuals may be able to pay the property taxes on their homestead in installments. Tax payments could be made quarterly, without penalty or interest. Missed installments are assessed a penalty and interest. This option is also available to homeowners in designated disaster areas whose homes are damaged in the disaster.

Active-duty military deferral

Anyone out of state on active military duty during a declared national emergency may defer payment of taxes until they are discharged or return to the state.

Disabled veterans exemption

Veterans who were disabled while serving in the military and the surviving spouse or minor child of a disabled veteran or serviceperson killed on active duty may receive an exemption of from \$5,000 to \$12,000, depending on the extent of the disability. This exemption can be applied to any property, not just homesteads.

Deferral of tax on increased appraisal

Perhaps one of the least known protections already available to homeowners is the option to defer paying taxes on any increase in their home's appraisal that is more than 5% (excluding improvements). In other words, after filing a deferral application with the appraisal district, a homeowner would have to pay taxes on only 105% of the prior year's taxable value.

Inexpensive Arbitration

In 2005 the Legislature created a procedure for homeowners to appeal an unfavorable ruling on market value by the Appraisal Review Board without having to go to the expense of hiring a lawyer to sue in district court. Instead, an owner of a home valued at less than \$1 million may request binding arbitration. An arbitrator is chosen by the homeowner and appraisal district from a list maintained by the comptroller. The arbitrator's decision is final and may not be appealed.

Other options

Local taxing units are permitted to allow payment of taxes to be split into two payments, without penalty, or permit payment by credit card, with an additional fee. Taxing units may also grant discounts for early payment of taxes.

Over-65 homeowners may be permitted to perform service for a taxing unit in lieu of paying their taxes. The homeowner must execute a contract with the taxing unit setting out the nature, time, location, and extent of the service. Each hour of service earns a credit equal to the federal hourly minimum wage.

A qualified homeowner may be permitted to teach for a school district in lieu of paying school property taxes, earning \$500 per course per semester. Businesses may be permitted to get similar credit on taxes on

the business' property for teaching by an employee.

10% cap on appraisal increases

The taxable value of a homestead may not increase by more than 10% per year, not including improvements to the property.

Lowering the appraisal cap would shift the burden of property taxes onto lower-income families, tax similar properties differently, and discourage the sale of real estate. For more information about appraisal caps, see *The Facts About Appraisal Caps*, <http://www.cppp.org/research.php?aid=556>.

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