Judging by recent data, the housing sector has finally turned the corner after its prolonged slide. Home prices increased from the first to the second quarter in 92 percent of metropolitan areas covered by a National Association of Home Builders index. "The U.S. Housing Bust Is Over," the *Wall Street Journal* reported in July. This is great news—a turnaround in housing removes a significant impediment to economic growth.

As business economist D'Ann Petersen points out in this issue of *Southwest Economy*, Texas was not immune to the housing market's decline. However, the sector's collapse didn't affect our region as much as it did the rest of the nation, helping explain why Texas has outperformed most other states during the economic recovery.

Texas escaped the boom and bust in housing prices, in part, because of ample land availability and limited zoning restrictions. But prudent regulation also played a role. In 1997, Texas amended its constitution, liberalizing home equity lending but limiting it to no more than 80 percent of the home's equity in most cases.

Indeed, by limiting homeowners' ability to use their legally protected homesteads as ATMs, state law prevented housing from fueling the consumer spending booms and busts experienced elsewhere. Texas now has a relatively low percentage of borrowers with "underwater mortgages"—home loans that exceed the value of the house. Consumer spending makes up about 70 percent of our state's and our nation's economy. Because Texas consumers did not increase their debt burdens as much as consumers in other areas of the country, they had less debt relative to income, leaving them better positioned.

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An upturn in our nation's housing market is especially welcome amid the tepid economic recovery. However, as Petersen makes clear, challenges remain, including pending foreclosures, tight credit conditions and continuing fiscal uncertainty. A question still confronting legislators in Washington is how to ensure a resilient housing sector. Perhaps they should start by providing a greater sense of clarity of their intentions on taxes, spending and cleaning up the present regulatory mare's nest so as to enable and incent individuals and businesses to enter into financial commitments, including home purchases.

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