A period of easy mortgage financing and subprime lending was among the catalysts of the financial crisis of 2007–09, our nation's worst downturn since the Great Depression. Relaxed credit standards contributed to a housing-frenzy-fed bubble that ultimately burst, leaving our financial system in disarray and homeowners "underwater" on their mortgages, owing lenders more than their houses were worth. The resulting wave of foreclosures—from which we have only recently begun to emerge—contributed to a tepid economic recovery.

Texas escaped the worst of the housing bubble's excesses, and it may provide policymakers some guidance on how the nation can avoid another such calamity, economists Anil Kumar and Ed Skelton write in this issue of *Southwest Economy*.

Since becoming part of the United States in 1845, Texas has ascended from frontier state to economic powerhouse. But the legacy and laurels of our early days are imbedded in the very fabric of the state. We have remained fiercely protective of personal property and opposed to its forced seizure by creditors. Under the homestead exemption, the Texas Constitution offers hallowed protections from the forced sale of house and land. Similarly, the Texas Property Code exempts from confiscation some personal property, including "two firearms" and "two horses, mules, or donkeys and a saddle, blanket, and bridle for each."

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A quarter century ago, Texans' strong ethic of personal responsibility was challenged, when loose lending and risky bets attacked our financial underpinning. From 1987 through 1991, Texas experienced 729 bank failures—including most of the state's biggest institutions—representing 38 percent of the nation's bank closures. From pain, grew wisdom: Texans took on relatively less household leverage and laid the foundation for a more resilient economy. And with lessons learned about the need for prudent oversight following our state's oil and real estate bust of the 1980s, the Texas Legislature wisely decided to constrain home equity lending to no more than 80 percent of a home's value. The limit effectively restrained the borrowing that figured in much of the collapse elsewhere. For Texas, the difficult lessons of a previous era were aptly applied.

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