

Current Housing Reports

Who Can Afford to Buy a House in 1993?

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C E N S U S B U R E A U

H121/97-1
Issued July 1997

Highlights

- About 58 (+/- 0.6 in 1993, +/- 0.8 in 1991) percent of American families could afford to purchase a modestly priced house in 1993, the same as in 1991. In other words, they could afford to purchase a house in the area where they lived with cash, or they could qualify for a 30-year conventional mortgage with a 5-percent down payment at the prevailing interest rate.
- About 19 (+/- 1.3) percent of White married couples who rent could afford a modestly priced house in 1993, compared with 8 (+/- 2.3) percent of Black married couples who rent.
- Most families who were renting in 1993 could not qualify to buy a modestly priced house for several reasons; about 46 (+/- 1.2) percent had both excessive debt and insufficient income for a mortgage.
- Providing a down payment subsidy would improve affordability more than a lower down payment or a decline in interest rates.
- Compared with 1984 and 1988, when 60 (+/- 1.0 in 1984, +/- 0.5 in 1988) percent of American families could afford a modestly priced house, housing affordability was less in 1993 and 1991, with 58 (+/- 0.6 in 1993, +/- 0.8 in 1991) percent being able to afford a house. Data are not available for other years.

Affordability for American families remained the same between 1991 and 1993.

The percentage of families able to afford a modestly priced house in the area where they lived using 30-year conventional fixed-rate financing with a 5-percent down payment was the same (58 percent) in 1993 as in 1991. The percentage of unrelated individuals who could afford to buy a modestly priced house was also the same (33 percent) in 1993 as in 1991. This information is based on data collected by the *Survey of Income and Program Participation* (SIPP) from February through May of 1993 on income, debts, and financial assets.¹

The type and price of housing in an area affects affordability.

About half of all families could afford a median-priced house, a price-adjusted house, or a condominium home in the area where

¹Details on the guidelines for conventional rate lending requirements are available on the Internet site for this report.

Table 1.

Affordability Status of a Modestly Priced Home for Families and Unrelated Individuals, Using Conventional, Fixed-Rate, 30-Year Financing: 1984, 1988, 1991, and 1993

	Percentage of families that can afford to buy			
	All families	Unrelated individuals	Renter families	Renter unrelated individuals
1984	60.4	33.5	12.6	13.4
1988	59.7	33.9	14.0	12.8
1991	57.6	33.4	13.1	12.2
1993	57.7	33.5	11.7	11.2

Source: U.S. Bureau of the Census. Survey of Income and Program Participation.

they lived in 1993. Fifty-eight percent of families could afford a modestly priced house, and sixty-two percent could afford a low-priced house. About one-fourth of all unrelated individuals could afford a median-priced house, a price-adjusted house, or a condominium home in 1993, while about 33 percent could afford a modestly priced house, and 40 percent could afford a low-priced house.

Affordability differs by region and metropolitan area status.

For all families and unrelated individuals in the South Region, 50 percent could afford a modestly priced house in 1993, higher than the 48 percent in the Northeast. Affordability was greater in the Midwest where 55 percent could afford a modestly priced house, but less in the West where only 42 percent could afford to buy one. In central cities of metropolitan areas, 39 percent could afford a modestly priced house, compared with 55 percent in suburban areas, and 53 percent outside metropolitan areas.

How houses were priced.

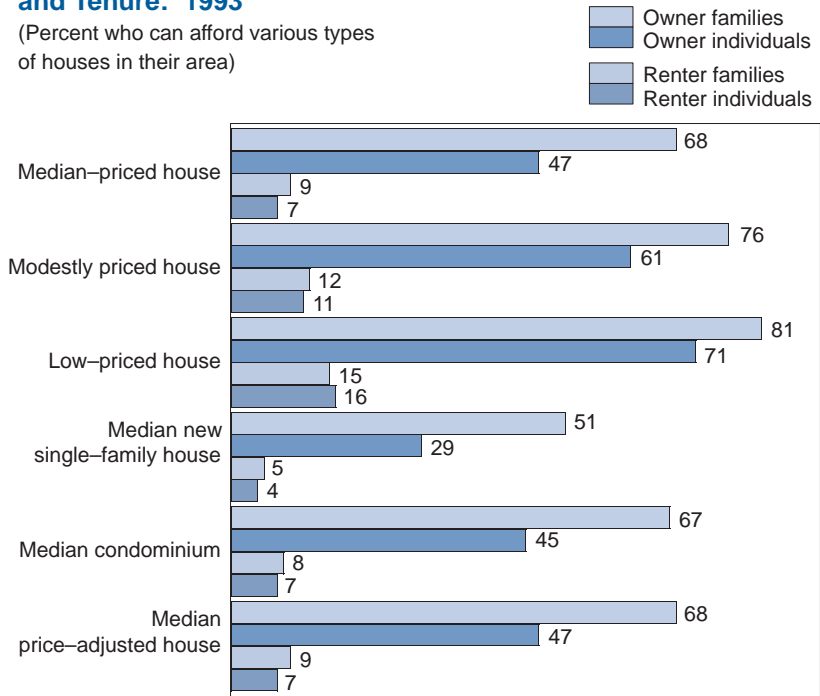
A modestly priced house is one priced so that 25 percent of all owner-occupied houses in the area are below this value and 75 percent are above. A median-priced house has a price below half of the owner-occupied houses in the area and above the other half. A price-adjusted house is a median-priced house in 1988 adjusted for increases in prices due to inflation from 1988 to 1993. Low-priced houses are priced so that 10 percent of all owner-occupied houses in an area are below that value and 90 percent are above. A maximum-priced house is the highest-priced house a family or unrelated individual can afford; given the limitations of income, debts, and financial assets. House prices were determined for the nine census divisions and by whether a house was inside or outside a metropolitan area, or in or out of a central city of a metropolitan area. For example, a modestly priced house in the suburbs of the South Atlantic Division of the South Region was \$65,000 in 1993.

Owners and renters show large differences in affordability.

The ability to purchase a modestly priced house differs significantly by whether you currently own or rent your present residence. For renters, only 11 percent could afford a modestly priced home in 1993. By contrast, 73 percent of owners could afford to relocate to a modestly priced home in the same area in 1993. In 1991, 13 percent of renters and 71 percent of owners could afford a modestly priced house in their area.

Figure 1. **Affordability Status by Type of House and Tenure: 1993**

(Percent who can afford various types of houses in their area)

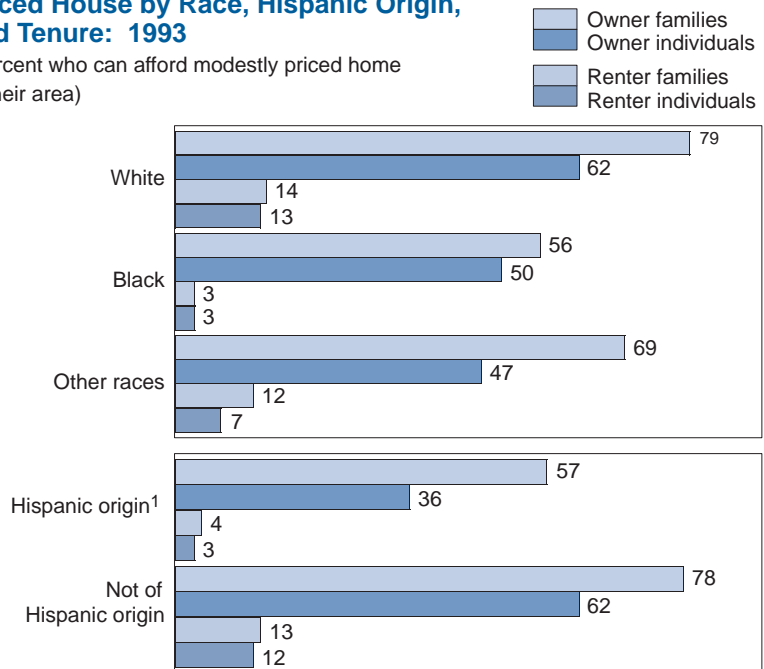


Note: Affordability relates to the ability to qualify for a conventional, 30-year mortgage with a 5-percent down payment. See text for explanation of home types.

Source: U.S. Bureau of the Census.

Figure 2. **Affordability Status for a Modestly Priced House by Race, Hispanic Origin, and Tenure: 1993**

(Percent who can afford modestly priced home in their area)



Note: Affordability relates to the ability to qualify for a conventional, 30-year mortgage with a 5-percent down payment.

¹Persons of Hispanic origin may be of any race.

Source: U.S. Bureau of the Census.

Owner families could afford higher-priced homes in 1993.

The median maximum-priced house that could be afforded for purposes of relocating by owner families in 1993 (using conventional financing) was \$138,100, significantly higher than the 1991 value of \$121,500. The median maximum-priced house in 1993 was \$80,900 for unrelated individual owners, compared with \$72,400 in 1991. The median maximum-priced house renter families and unrelated individuals could afford was less than \$20,000 in both 1993 and 1991.

Age, sex, marital status, race, and ethnicity influence affordability.

While half of all families and unrelated individuals could afford a modestly priced house, affordability varies greatly by type of family and marital status. Two-thirds of married couples, about 2 in 5 of male-householder families, one-fourth of female-householder families, and one-third of all unrelated individuals could afford a modestly priced house. For families, the ability to afford a modestly priced house is also related to whether they had children under the age of 18. For married couples with children under 18, about 3 out of 5 could afford a house, but for those with no children under 18, over three-quarters could afford a house.

When the race and ethnic background of individuals is considered, affordability differs, even when similar family types are compared. About 1 out of 5 (19 percent) white married couple renters could qualify to buy a modestly priced house, while only 8 percent of Black married couples who rent could do so. About 83 percent of White married couple homeowners could afford to relocate to a modestly priced

house in the area where they lived, compared with about 7 out of 10 Black married couple owners.²

Seven percent of Hispanic married couples who rent could afford a modestly priced house, compared with 1 out of 5 (20 percent) non-Hispanic married couples. Married couple homeowners of Hispanic origin could afford to relocate to a modestly priced house 63 percent of the time, compared with 83 percent for non-Hispanic married couple homeowners.³

Age is also a factor related to affordability. Householders in families who rent who could not afford to buy a modestly priced house were slightly younger (median age 34.6) than all householders in families who rent (median age 35.5), and much younger than householders in families who own their home (median age 48). Householders in families who are homeowners who could not afford to relocate to a modestly priced house were also younger (median age 38) than all

householders in families who are homeowners.

Higher income brings greater affordability, but lack of income and cash, and excessive debt, hinder affordability.

Only 2 percent of renter families with less income than the median for all renter families could afford a modestly priced house, while 11 percent with incomes above the median could afford to buy. Three primary reasons explain why families and individuals cannot afford to purchase a house: lack of cash or other financial assets for the down payment and closing costs, insufficient income to make the mortgage payments, and other debt payments which reduce the amount of income available for the mortgage payment. Financial assets include equity in a homeowner's present house, cash, and other assets that can be converted into cash.

Of those renter families who could not qualify, most (65 percent) could not qualify for more than one reason. For example, about 46 percent had both excessive debt and insufficient income for a mortgage, while 19 percent lacked cash (for the down payment and closing costs) and also had insufficient income to qualify for the mortgage. The largest single reason owner families could not afford a modestly

²Race is defined by the race of the householder.

³Ethnicity is defined by the ethnicity of the householder. Persons of Hispanic origin may be of any race. These data do not include the population of Puerto Rico.

Table 2.
Reason Modestly Priced Home Cannot be Afforded for Families and Unrelated Individuals, Using Conventional, Fixed-Rate, 30-Year Financing: 1993

Type of problem	Percentage of families that cannot afford to buy			
	All families	All unrelated individuals	Renter families	Renter unrelated individuals
Total	100.0	100.0	100.0	100.0
Cash problem only ¹	36.7	20.2	33.0	20.4
Income problem only	11.1	15.2	2.5	7.1
Cash and income problem ...	52.2	64.6	64.6	72.5

¹Includes excessive debt.

Source: U.S. Bureau of the Census. Survey of Income and Program Participation.

priced house was because their debt level was too high to qualify for a mortgage (27 percent).

How could homeownership affordability be improved?

Many people are interested in ways to increase the ability of families and unrelated individuals to purchase a home. Three basic policy alternatives which are often discussed are (1) lowering interest rates, (2) requiring a lower down payment for home purchases, and (3) providing a down payment subsidy to home buyers. Using SIPP data, it is possible to estimate the potential effects of such policies for owners and renters using both conventional financing and FHA-insured financing. In this discussion, the focus will be on using conventional financing for renters purchasing a modestly priced home in 1993.

Surprisingly, decreases in the mortgage interest rate of less than 3 percent compared with the interest rate prevailing in 1993 (7.17 percent) had no significant effect on the number of renters who would have qualified for a mortgage. Because renters typically have more than one obstacle to buying a home, lower interest rates might remove one obstacle — lack of income to qualify for a loan — but they still might not have enough cash for a down payment and closing costs or might have debt levels that are too high. A 3 percentage point lower rate would, however, increase the number of renters who would have qualified for a mortgage by about 1 percentage point.

It is also possible to qualify more renters by decreasing the required down payment on a house to below 5 percent. This option would lower the amount of cash required for the purchase, but it would also increase the amount of income necessary

because mortgage payments would increase as a result of the higher amount of the mortgage. A decrease in the amount of required down payment from 5 percent to 2.5 percent would have resulted in an increase in renters who would qualify for a mortgage by 1-percentage point (from 11.4 percent to 12.7 percent). Requiring no down payment would have increased the qualified renters by 3-percentage points.

Another option to increase the number of renters who would qualify for a mortgage is a down payment subsidy. This approach is the same as receiving a gift from parents or others to increase the amount of cash available for a down payment, closing costs, or debt repayment. A subsidy of \$1,000 would have increased the number of renters who would qualify for a mortgage by 1-percentage point; \$2,500, by 3-percentage points; \$5,000, by 14-percentage points; \$7,500, by 21-percentage points; and \$10,000, by 25-percentage points.

How could homeownership affordability be improved for minorities?

Some policy makers have focused on how homeownership

affordability could be improved for minority groups, such as Blacks and persons of Hispanic origin. A lower interest rate would have had no significant effect on the percentage of Black or Hispanic renters who could qualify for a mortgage for a modestly priced house in 1993.

Reducing the required down payment from 5 percent to 2.5 percent for Black renters would have increased the number who could qualify for a mortgage on a modestly priced house in 1993 by 1-percentage point. Having no down payment would not have had a significantly different effect from having a down payment of 2.5 percent. Reducing the down payment to 2.5 percent for Hispanic renters would have had no effect on affordability. Reducing the required down payment to zero would have increased the number who could qualify for a mortgage on a modestly priced house by 1-percentage point in 1993.

It would require at least a \$2,500 subsidy to significantly improve the percentage of Black renters who would have qualified for a mortgage in 1993. A \$2,500

Table 3.

Effects of Policy Changes on Affordability of a Modestly Priced Home for Total, Black, and Hispanic Origin Renters, Using Conventional, Fixed-Rate, 30-Year Financing: 1993

	Percentage of renters that can afford to buy		
	All	Black	Hispanic origin
Current mortgage requirements ¹	11.4	3.1	3.6
2.5 percent down payment	12.7	4.1	4.2
No down payment	14.4	5.0	5.1
Interest rate 1 percent lower	11.7	3.3	3.8
Interest rate 2 percent lower	12.0	3.5	3.8
Interest rate 3 percent lower	12.3	3.6	3.9
\$1,000 down payment subsidy	12.5	3.7	4.2
\$2,500 down payment subsidy	14.4	5.1	5.3
\$5,000 down payment subsidy	25.8	18.0	14.1
\$7,500 down payment subsidy	32.5	24.3	19.8
\$10,000 down payment subsidy	36.4	27.2	23.0

¹Current mortgage requirements in 1993 were 5-percent down, a 7.17 percent interest rate, and no subsidy.

Source: U. S. Bureau of the Census. Survey of Income and Program Participation.

subsidy would have increased the number of Black renters qualified for a mortgage by 2-percentage points in 1993, a \$5,000 subsidy by 15-percentage points, a \$7,500 subsidy by 21-percentage points, and a \$10,000 subsidy by 24-percentage points.

It would also have required at least a \$2,500 subsidy to significantly improve the percentage of Hispanic renters who would have qualified for a mortgage. A \$2,500 subsidy would have increased the number of Hispanic renters who would have qualified for a mortgage by 2-percentage points, a \$5,000 subsidy by 10-percentage points, a \$7,500 subsidy by 16-percentage points, and a \$10,000 subsidy by 19-percentage points.

Source and Accuracy of the Estimates.

This report presents information of current policy interest, using data from households. All statistics are subject to sampling variability, as well as survey design flaws, respondent classification errors, and data processing mistakes. The Census Bureau has taken steps to minimize errors, and analytical statements have been tested and meet statistical standards. However, because of methodological differences, use caution when comparing these data with data from other sources. For information on the source of data and the accuracy of estimates, including the use and computation of standard errors, see the "Source and Accuracy Statement for the 1990

and 1992 Public Use Files from the *Survey of Income and Program Participation*."

Note: Further information on the source and accuracy of these data are found in the Internet site for this report.

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Detailed tabulations can be found on the housing affordability section of the Bureau of Census web site at <http://www.census.gov/hhes/www/hsgaffrd.html>.