Who Could Afford to Buy a House in 1995?

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Current Housing Reports

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Highlights

- In 1995, about 56 (+/- 0.8) percent of American families (current owners as well as renters) could afford to purchase a modestly priced house in the area where they lived. That is, they could afford to purchase a modestly priced house with cash or could qualify for a 30-year conventional mortgage with a 5-percent down payment. Ninety-five percent of this group currently own their house. A modestly priced house is one that is less expensive than 75 percent of all owner-occupied houses in the area of residence. See box 1 for definitions.
- The percentage of families able to buy a modestly priced house was lower in 1995 than in 1984 or 1988 when about 60 percent (+/- 1.0 in 1984, +/- 0.5 in 1988) could afford such a purchase or in 1991 and 1993 when about 58 percent (+/- 0.8 in 1991, +/- 0.6 in 1993) of families could afford to purchase a modestly priced house.
- About 10 (+/- 0.6) percent of renters could afford a modestly priced house in 1995 — not much different than the 11 (+/- 0.5) percent of renters who could afford such a purchase in 1993.
- About 19 (+/- 1.9) percent of White non-Hispanic married couples who were renting in 1995 could afford a modestly priced house, compared with 8 (+/- 3.0) percent of Black married couples who were renting.
- Renter families in 1995 were usually disqualified from purchasing a modestly priced house for more than one reason (lack of down payment, excessive debt, or insufficient income). About 48 (+/- 1.5) percent of renter households would not qualify because of excessive debt and insufficient income for a mortgage.
- Down payment subsidies would do more to improve affordability of a modestly priced home than lower down payments (which would also increase monthly mortgage payments) or a signficant reduction in interest rates. Subsidies would, however, require funding from a private source, such as employers or assistance from home sellers, or nonprofit groups, or a governmental agency.

Barriers to Homeownership.

Many public programs have sought to reduce barriers to homeownership for American families and individuals who desire homeownership. Would-be homeowners are most often discouraged by having excessive debts, by not having cash for a down payment, or by interest rates that set the monthly mortgage payment too high for the family to afford on its current income. This report attempts to quantify these factors for different types of households and to illustrate how affordability might be changed by altering down payment requirements, changing interest rates, or permitting subsidies or other forms of cash assistance to renters seeking to purchase a house.

This is the fourth of a series of reports that have attempted to gauge changing housing affordability for families (current owners and current renters) and unrelated individuals. Many homeowners who purchased their homes many years ago might not qualify for a mortgage under current conditions; for them, not being able to afford a house may be a barrier to residential mobility. The data come from the Census Bureau's Survey of Income and Program Participation (SIPP) that was conducted during the first 4 months of 1995 and collected data on income, debts, and financial assets. Income in this quarter was multiplied by 4 to represent annual income.[1]

[1] Details on the guidelines for conventional rate lending requirements are available on the Internet site for this report: *http://www.census.gov/hhes/www/hsgaffrd.html.*

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Affordability for American families was lower in 1995 than in 1993.

In 1995, about 56 percent of all families (including current owners and current renters) would qualify for a mortgage for a modestly priced house in the area where they lived using 30-year conventional fixed-rate financing with a 5-percent down payment.[2] This percentage was slightly lower than in 1993, when 58 percent of families would have qualified. The percentage of unrelated individuals able to buy a modestly priced house under these conditions was about the same — 34 percent — in 1995 as in 1993.

This decline in affordability for families occurred alongside a rise in the homeownership rate. In the spring of 1993, about 63.8 percent of American families were owner-occupiers, whereas 64.5 percent were owner-occupiers in the spring of 1995. Over this period of time the number of homeowners increased faster (from 62.0 million in the spring of 1993 to 64.4 million in the spring of 1995, or an increase of 3.9 percent) than the number of renters (from 35.1 million in the spring of 1993 to 35.4 million in the spring of 1995 — an increase of only 0.7 percent). In fact, between these two dates many renters — especially those with the highest income, greatest assets, and least debt — became homeowners. Many of these renters-to-owners used up some of their assets for closing costs and incurred debt (a mortgage), and these changes, along with changes in families' incomes, a slight rise in interest rates, and changes in housing prices over this period nudged downward the affordability measure for all families.

[2] Terms are defined in box 1 and on the Internet site for this report.

The price of housing in an area affects affordability.

About half of all families could afford a median-priced house, or a price-adjusted house in the area where they lived in 1995. Fifty-six percent of families could afford a modestly priced house, and 60 percent could afford a low-priced house. About one-fourth of all unrelated individuals could afford a median-priced house or a price-adjusted house in 1995, while about one-third could afford a modestly priced house, and two-fifths could afford a low-priced house.

Table 1.
Affordability of a Modestly Priced House for Families and Unrelated Individuals, by Tenure: Selected Years, 1984-1995

Percentage who could afford to buy

	Families			Unrelated individuals		
	Total	Owner	Renter	Total	Owner	Renter
1984	60.4	79.6	12.6	33.5	60.2	13.4
1988	59.7	78.1	14.0	33.9	60.8	12.8
1991	57.6	75.2	13.1	33.4	59.0	12.2
1993	57.7	76.5	11.7	33.5	60.8	11.2
1995	55.6	74.6	9.9	34.3	62.3	10.6

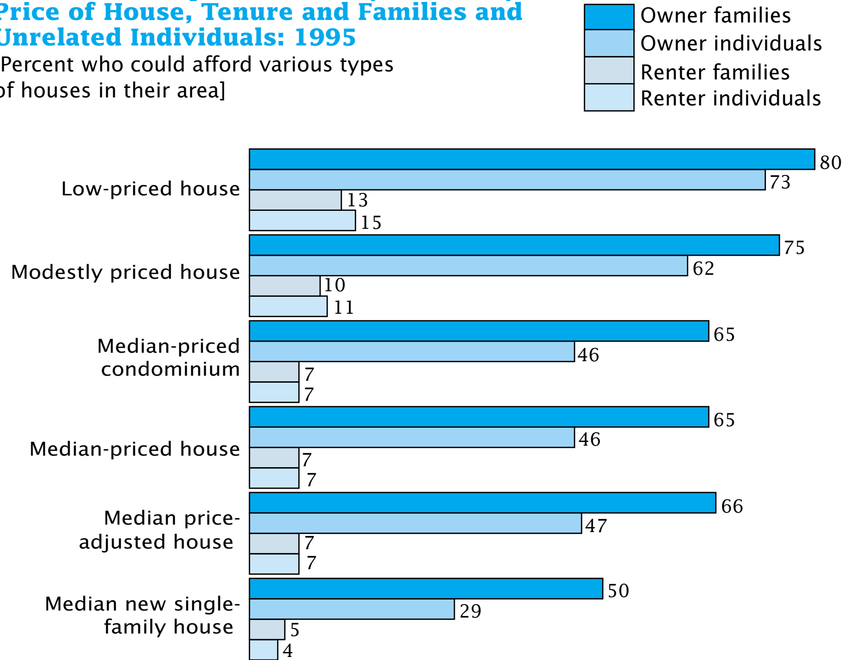
Note: Assumes conventional, fixed-rate, 30-year financing, with a 5-percent down payment.
Source: U.S. Census Bureau, Survey of Income and Program Participation.

How houses were priced.

House prices were determined for areas defined by the nine census geographic 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. A *modestly priced house* is one priced so that 25 percent of all owner-occupied houses in the area in which the survey respondent lives 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 as measured by the Urban Consumer Price Index from 1988 to 1995. *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.

As an example of the range of these housing prices, a modestly priced house in the suburbs of the South Atlantic Division was $67,000 in 1995, while a modestly priced house in a city in the Pacific Division was $107,000. *Median new single-family house* values for each of the nine census geographic divisions were derived from the Survey of Construction. *Median condominium* values for each of the four census geographic regions were derived from the American Housing Survey. The values of all these houses can be found on the housing affordability Internet site at *http://www.census.gov/hhes/www/hsgaffrd.html.*

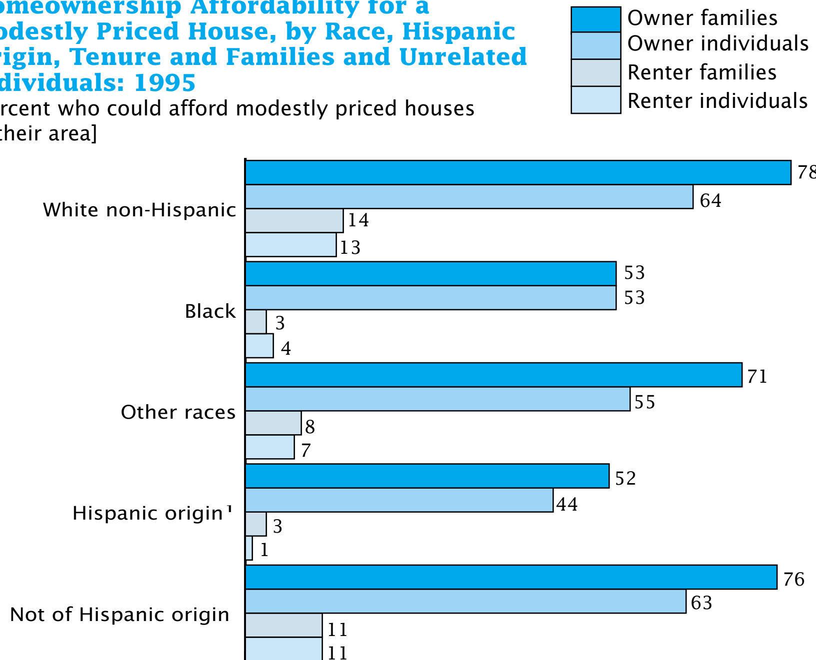
Figure 1.
Homeownership Affordability Status, by Price of House, Tenure and Families and Unrelated Individuals: 1995
[Percent who could afford various types of houses in their area]



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 different priced houses.

Source: U.S. Census Bureau.

Figure 2.
Homeownership Affordability for a Modestly Priced House, by Race, Hispanic Origin, Tenure and Families and Unrelated Individuals: 1995
[Percent who could afford modestly priced houses in their area]



[1]Hispanics may be of any race.

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

Source: U.S. Census Bureau.

Affordability differs by region and metropolitan area status.

For all families and unrelated individuals in the South, about half could afford a modestly priced house in 1995, the same as 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 39 percent could afford to buy one. In central cities of metropolitan areas, 38 percent could afford a modestly priced house, compared with 55 percent in suburban areas and 51 percent outside metropolitan areas.

Owners and renters differ in affordability.

The ability to purchase a modestly priced house differs significantly by whether families or individuals currently own or rent their residence. For all renters, only 10 percent could afford a modestly priced house in 1995. By contrast, 71 percent of owners could afford to purchase a different modestly priced house in the same area where they lived in 1995. In 1993, 11 percent of renters and 73 percent of owners could afford a modestly priced house in their own area.

How much house owners could afford was about the same in 1995 as in 1993.

The median value of the maximum amount that owner families could afford to pay in 1995 to relocate to another house (using conventional financing) was $136,100, about the same as in 1993. For unrelated individuals who owned, the median value of the maximum-priced house in 1995 was $84,600, also about the same as in 1993. In contrast, the median value of the maximum-priced house renters could afford was less than $20,000 in both 1995 and 1993. Many renters cannot afford any house because of low

incomes, little or no savings or other financial assets, and high amounts of debt relative to their income.

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

Affordability varies greatly by type of family and marital status. Two-thirds of married couples, 36 percent of male-householder families, 22 percent of female-householder families, and one-third of all unrelated individuals could afford a modestly priced house in 1995. 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, 56 percent could afford a house, but for those with no children under 18, about three-quarters (74 percent) could afford a house.

Homeownership affordability varies by race and ethnicity even when similar family types are compared.[3] About 1 out of 5 (19 percent) White non-Hispanic married couples who rent could qualify to buy a modestly priced house, while only 8 percent of Black married couples who rent could do so.[4] About 82 percent of White non-Hispanic married couples who are 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.

Only 5 percent of Hispanic married couples who rent could afford a modestly priced house, compared with 17 percent of non-Hispanic married couple renters.[5] Married couple homeowners of Hispanic origin could afford to purchase a different modestly priced house 59 percent of the time, compared with 81 percent for non-Hispanic married-couple homeowners.

Age is also related to affordability. Renters in families who could not afford to buy a modestly priced house were much younger (median age of householder was 36) than families who own their home (median age of householder was 48) and also younger than owner families who could not afford to purchase a different modestly priced house (median age of householder was 39).

[3] These additional data are reported on the Internet site for this report.

[4] Race is defined by the race of householder.

[5] Ethnicity is defined by the ethnicity of the householder. Hispanics may be of any race.

Table 2.
Affordability of a Modestly Priced House for Families and Unrelated Individuals by Tenure and Type of Family: 1995

	Percentage who could afford to buy		
	Total	Owner	Renter
Married couple families	65.8	80.0	15.1
With children under 18	56.1	73.1	11.0
With no children under 18	74.3	85.3	21.0
Male householder families	35.9	58.8	5.4
Female householder families	22.3	45.1	2.9
Unrelated individuals	34.3	62.3	10.6

Note: Assumes conventional, fixed-rate, 30-year financing, with a 5-percent down payment.
Source: U.S. Census Bureau, Survey of Income and Program Participation.

How affordability is constrained by lack of income and debt payments.

According to conventional mortgage underwriting guidelines, the maximum amount of income that can be allocated to mortgage payments is 28 percent, and the maximum amount that can be allocated to all debt payments (including the projected mortgage payments) is 36 percent of income. These rules, combined with the amount of debt already accumulated, and the amount of cash available for the down payment, effectively determine the maximum mortgage for which a family or individual can qualify. The details of how these parameters are used to qualify a family or individual for a mortgage may be found in the Source and Accuracy Statement on the Internet.

Income and assets affect affordability.

Only 2 percent of renter families below the median income for all renter families could afford a modestly priced house, while 18 percent with incomes above the median could afford to buy. Three primary reasons explain why families and individuals cannot afford to purchase a house: (1) lack of cash or other financial assets for the down payment and closing costs, (2) insufficient income to make the mortgage payments, and (3) other debt payments that reduce the amount of income available for the mortgage payment. Financial assets include equity in a home-owner's present house, cash, and other assets that could be converted into cash.

Of those renter families who could not qualify to purchase a modestly priced house, most (70 percent) could not qualify for more than one

Table 3.
Reasons Why Families and Unrelated Individuals Could Not Afford Modestly Priced Houses, by Tenure: 1995

Type of problem	Families: Total	Families: Owners	Families: Renters	Unrelated individuals: Total	Unrelated individuals: Owners	Unrelated individuals: Renters
	Percentage who could not afford to buy					
Total	100.0	100.0	100.0	100.0	100.0	100.0
Cash problem only[1]	33.0	40.5	27.9	16.4	15.2	16.8
Income problem only	11.3	24.8	2.1	15.7	40.5	6.9
Cash and income problem	55.7	34.7	69.9	67.9	44.3	76.3

[1] Includes excessive debt.

Note: Assumes conventional, fixed-rate, 30-year financing, with a 5-percent down payment.
Source: U.S. Census Bureau, Survey of Income and Program Participation.

reason. For example, about 48 percent had both excessive debt and insufficient income for a mortgage, while 22 percent lacked cash (for the down payment and closing costs) and also had insufficient income to qualify for the mortgage. Having a debt level too high to qualify for a mortgage was the largest single reason owner families could not afford a modestly priced house; 27 percent of owner families could not qualify for this reason.

How could the affordability of houses be increased?

Three basic ways to increase the affordability of houses are to: (1) lower interest rates, (2) require a lower down payment for home purchasers, and (3) provide 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 Federal Housing Administration (FHA) insured financing. In this discussion, the focus will be on using conventional financing for renters purchasing a modestly priced house in 1995.

Surprisingly, decreases in the mortgage interest rate of less than 3 percentage points compared with the conventional mortgage interest rate prevailing in 1995 (8.67 percent) had no significant effect on the number of renters who would have qualified for a mortgage on a modestly priced house. Because renters typically have more than one obstacle to buying a house, lower interest rates might remove one obstacle — lack of income to qualify for a loan — but renters still might not have enough cash for a down payment and closing costs or might have debt levels that are too high. Reducing interest rates by 3 percentage points would, however, increase (by about 1 percentage point) the number of renters who would have qualified for a mortgage.

More renters would qualify if the required down payment on a house were below 5 percent, the minimum assumed for this report. This option would lower the amount of cash required for the down payment and closing costs, but it would also increase the amount of income necessary, because the mortgage, and hence payments, would have to be higher. Decreasing the required down payment from 5 percent to 2.5 percent would have increased (by about 1 percentage point) renters who would qualify for a mortgage. Requiring no down payment would have increased the proportion of qualified renters by 3 percentage points.

Table 4.
Effects of Possible Policy Changes on the Affordability of a Modestly Priced House for Total, Black, and Hispanic Origin Renters: 1995

	Total	Black	Hispanic origin[1]
	Percentage who could afford to buy		
Current mortgage requirements[2]	10.2	3.4	2.6
Modified mortgage requirements			
Modified down payment			
2.5 percent down payment	11.3	4.4	2.9
No down payment	12.7	5.7	3.2
Modified interest rate			
Interest rate 1 percentage point lower	10.5	3.4	2.6
Interest rate 2 percentage points lower	10.8	3.4	2.7
Interest rate 3 percentage points lower	11.1	3.4	2.7
Modified cash assistance			
$1,000 down payment subsidy	11.0	4.2	2.9
$2,500 down payment subsidy	12.6	5.2	3.3
$5,000 down payment subsidy	21.2	16.1	9.9
$7,500 down payment subsidy	27.7	22.6	14.7
$10,000 down payment subsidy	31.9	25.5	18.6

[1] Hispanics may be of any race.
[2] Current mortgage requirements in 1995 were 5 percent down, a 8.67 percent interest rate for conventional mortgages, and no subsidy.
Note: Assumes conventional, fixed-rate, 30-year financing, with a 5-percent down payment.
Source: U.S. Census Bureau, Survey of Income and Program Participation.

Another option to increase the number of renters who would qualify for a mortage is a down payment subsidy. This approach is the equivalent of receiving a gift from parents or employers or home sellers, or assistance from nonprofit agencies or governmental agencies to increase the amount of cash available for a down payment, closing costs, or debt repayment. A subsidy of $1,000 would have had no significant effect on the number of renters who would qualify for a mortgage. A subsidy of $2,500 would have increased the number of renters qualifying by 2 percentage points; $5,000, by 11 percentage points; $7,500, by 18 percentage points; and $10,000, by 22 percentage points. These subsidy options would, however, require funding from some private, nonprofit or governmental organizations.

How could homeownership be made more affordable for minorities?

Improving opportunities for homeownership among minority populations has been a goal of several organizations.[6] Lowering interest rates, reducing the down payment, and offering subsidies for the down payment are possible ways of expanding opportunities for renters to become owners. Lowering interest rates by 3 percentage points from their 1995 levels would have no significant effect on the percentage of Black or Hispanic renters who could qualify for a mortgage for a modestly priced house in 1995. Lowering the down payment to zero, however, would have increased the number of Black renters who could qualify for a mortgage on a modestly priced house by 2 percentage points, but would have had no significant effect for Hispanic renters.[7]

A subsidy of at least $2,500 for the down payment would be required to significantly increase the percentage of Black renters who would have qualified for a mortgage in 1995. A $2,500 subsidy would have increased the number of Black renters qualified for a mortgage by 2 percentage points, a $5,000 subsidy by 13 percentage points, and a $7,500 subsidy by 19 percentage points. A $10,000 subsidy would not significantly further increase (over a $7,500 subsidy) the number of Black renters who could qualify for a mortgage.

For Hispanic renters, a subsidy of at least $5,000 would be required to significantly raise the percentage who would qualify for a mortgage. A $5,000 subsidy would have increased the number of Hispanic renters who would have qualified for a mortgage on a modestly priced house by 7 percentage points, a $7,500 subsidy by 12 percentage points, and a $10,000 subsidy by 16 percentage points. As noted earlier, however, such mortgage subsidies would require funding from some private, nonprofit, or governmental source.

[6] Organizations with large outreach programs to improve homeownership among Blacks and Hispanics include Fannie Mae, Freddie Mac, and the U.S. Department of Housing and Urban Development.

[7] Requiring no down payment would not have had a significantly different effect from requiring a down payment of 2.5 percent for Black renters.

For further information

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

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 is found at *http://www.census.gov/hhes/www/hsgaffrd.html*.