Who Could Afford to Buy a Home in 2002?

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Current Housing Reports

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Highlights

- In 2002, about 56 percent (+/–0.7) of American families (current owners as well as renters) could afford to purchase a modestly priced home or condominium in the state where they lived. That is, they could afford to purchase a modestly priced home with cash or could qualify for a 30-year conventional mortgage with a 5 percent down payment. Ninety-six percent of this group currently own their homes. A modestly priced home is one that is less expensive than 75 percent of all owner-occupied homes in the area of residence (Table 1).
- The percentage of families able to buy a modestly priced home was lower in 2002 than in 1984 or 1988, when about 60 percent (+/–1.0 in 1984, +/–0.5 in 1988) could afford such a purchase, and 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 home. It was about the same as in 1995, the last time affordability measures were developed (Table 1).
- About 8 percent (+/–0.5) of total renters could afford to buy a modestly priced home in 2002—less than the 10 percent (+/–0.6) of renters who could afford such a purchase in 1995 (Table 1).
- About 13 percent (+/–2.0) of non-Hispanic White families who were renting in 2002 could afford a modestly priced home, compared with 2 percent (+/–2.2) of Black families who were renting (Figure 2).
- Renter families in 2002 were usually disqualified from purchasing a modestly priced home for more than one reason (lack of down payment, excessive debt, or insufficient income). About 67 percent (+/–1.3) of renter families did not qualify because of insufficient cash (including excessive debt) and insufficient income for a mortgage (Table 4).
- Sufficiently large 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 reduce interest rates. Subsidies would, however, require funding from a private source, such as employers, home sellers, nonprofit groups, or a governmental agency (Table 5).

Barriers to Homeownership

Many public programs have sought to reduce barriers to homeownership for American families and individuals. Would-be homeowners can be prevented from buying a home by excessive debt, insufficient cash for a down payment, or 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 in the process of purchasing a house. “Home” refers to detached and attached single-family homes and condominium dwellings. Mobile homes are not included in this report.

This is the fifth of a series of reports that have attempted to measure changes in housing affordability for families (current owners and current renters) and unrelated individuals. The data in this report were collected from October 2002 through January 2003 in the sixth wave (interview) of the 2001 Survey of Income and Program Participation (SIPP). The data collected included income, debts, and financial

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assets. Income from SIPP in the 4-month period was multiplied by 3 to represent annual income.[1] The American Community Survey was the source of data on the value of homes for individual states. The population represented (population universe) is the civilian noninstitutionalized population living in the United States.

The estimates in this report (which may be shown in text, figures, and tables) are based on responses from a sample of the population and may differ from the actual values because of sampling variability or other factors. As a result, apparent differences between the estimates for two or more groups may not be statistically significant. All comparative statements have undergone statistical testing and are significant at the 90-percent confidence level unless otherwise noted.

Some of the comparisons that follow are based on estimates that are not included in the tables and figures in this report. These estimates are based on more detailed tabulations that are available on the Census Bureau's housing affordability Web site at <www.census.gov/hhes/www/housing/hsgaffrd/hsgaffrd.html>.

Affordability in 1995 and 2002

In 2002, about 56 percent of all families (including current owners and current renters) would qualify for a mortgage for a modestly priced home in the area where they lived using 30-year conventional fixed-rate financing with a 5 percent down payment[2] (Table 1). This percentage was about the same as in 1995, the last time affordability measures were developed. The percentage of unrelated individuals able to buy a modestly priced home under these conditions was slightly lower in 2002 (33 percent) than in 1995 (34 percent).

[1] Details on the guidelines for conventional rate lending requirements are available on the housing affordability Internet site at <www.census.gov/hhes/www/housing/hsgaffrd/hsgaffrd.html>.

[2] Terms are defined in the text box "How Houses Were Priced" and on the Internet site for this report. Although there are many types of new or alternative mortgages, such as adjustable-rate mortgages, interest-only mortgages, and others, conventional fixed-rate mortgages have been used as a standard in this report to evaluate housing affordability. The potential impact of elements of these alternative mortgages, such as lower interest rates or no down payment, is evaluated in the policy section.

Table 1.
Affordability of a Modestly Priced Home for Families and Unrelated Individuals by Tenure: Selected Years, 1984–2002

Year	Percentage of families and unrelated individuals 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
2002	56.4	73.6	7.8	33.1	57.0	7.3

Note: Assumes conventional, fixed-rate 30-year financing, with a 5 percent down payment. No report was issued between 1995 and 2002.

Source: U.S. Census Bureau, Survey of Income and Program Participation, 2002.

How Houses Were Priced

Home prices were determined for states and the District of Columbia and segmented by whether a home was inside or outside a metropolitan area.[3] These prices came from the 2002 American Community Survey. A *modestly priced home* is one priced so that 25 percent of all owner-occupied homes in the area in which the survey respondent lives are below this value and 75 percent are above. A *median-priced home* has a price below half of the owner-occupied homes in the area and above the other half. A *price-adjusted home* is a home that was median priced in 1988 and has been adjusted for increases in prices due to inflation as measured by the Urban Consumer Price Index (CPI-U) from 1988 to 2002. *Low-priced homes* are priced so that 10 percent of all owner-occupied homes in an area are below that value and 90 percent are above. A *maximum-priced home* is the highest-priced home a family or unrelated individual can afford, given the limitations of income, debts, and financial assets (Figure 1).

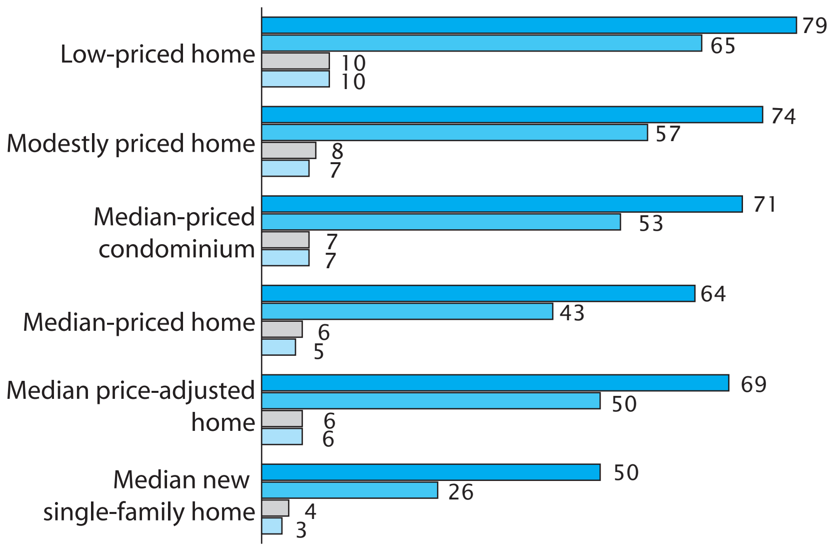
As an example of the range of these housing prices, a modestly priced home in the nonmetro area of Florida was $70,590 in 2002, while a modestly priced home in a metro area in California was $178,550. *Median new single-family home* values for each of the nine census geographic divisions were derived from the Survey of Construction. *Median condominium* values for each of the four census geographic regions were derived from the 2001 American Housing Survey and adjusted for inflation using the CPI-U. The values of all of these homes can be found on the housing affordability Internet site at <www.census.gov/hhes/www/housing/hsgaffrd/hsgaffrd.html>.

[3] For six states—Arizona, Colorado, Connecticut, Massachusetts, New Jersey, and Rhode Island—and the District of Columbia, home prices were determined at the state level only.

Figure 1.

Homewownership Affordability Status by Price of Homes, Tenure, and Families and Unrelated Individuals: 2002

[Percent who could afford various types of homes]



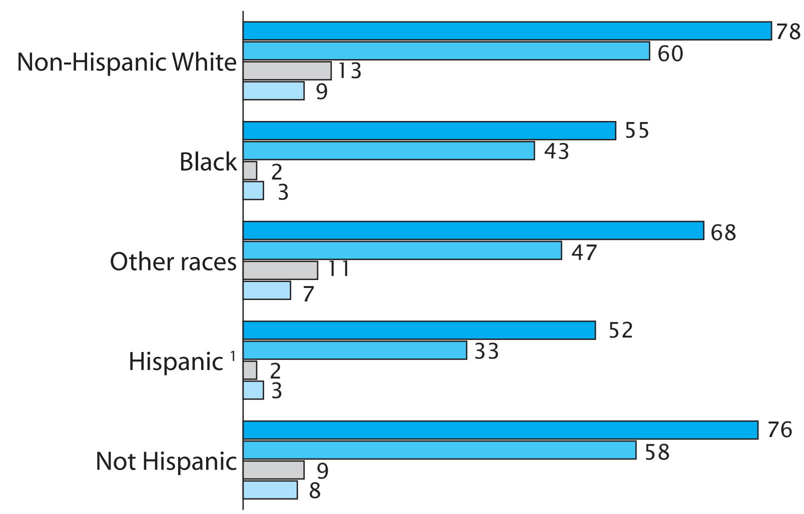
Note: Affordability relates to the ability to qualify for a conventional, 30-year mortgage, with a 5 percent down payment. See text for explanation of price categories.

Source: U.S. Census Bureau, Survey of Income and Program Participation, 2002.

Figure 2.

Homeownership Affordability for a Modestly Priced Home by Race, Hispanic Origin, Tenure, and Families and Unrelated Individuals: 2002

[Percent who could afford various types of homes]



[1] Hispanics may be 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, Survey of Income and Program Participation, 2002.

The 2002 level of affordability for families coincided with a rise in the homeownership rate. In the first quarter of 1995, about 64.2 percent of American householders owned their home, compared with 68.3 percent in the fourth quarter of 2002. Over this period of time, the number of homeowners increased by 16 percent, from 64.0 million in the first quarter of 1995 to 74.4 million in the fourth quarter of 2002. The number of renters decreased by 2 percent from 35.4 million in the first quarter of 1995 to 34.6 million in the fourth quarter of 2002. Between these two dates, many renters—especially those with the highest income, largest assets, and least debt—became homeowners.[4]

Affordability by Region and Metropolitan Area

Nationally, 48 percent of all families and unrelated individuals could afford a modestly priced home in 2002. For all families and unrelated individuals in the Midwest, more than half (54 percent) could afford a modestly priced home in 2002. The proportion in the Northeast was 49 percent, and in the South it was 48 percent. Affordability was lower in the West, where 40 percent could afford to buy a home.

Owners and Renters

The ability to purchase a modestly priced home differed by whether families or individuals currently own or rent their residence. For all renters, 8 percent could afford a modestly priced home in 2002. By contrast, 69 percent of owners could afford to purchase a different modestly priced home in the same area where they lived in 2002. In 1995, 10 percent of renters and 71 percent of owners could afford a modestly priced home in their own area.

[4] U.S. Census Bureau, Housing Vacancies and Homeownership Annual Statistics: 2005

How Much Owners Could Afford

The median value of the maximum amount that owner families could afford to pay in 2002 to relocate to another home using conventional financing was $205,500, more than in 1995. For unrelated individuals who owned, the median value of their maximum-priced affordable home in 2002 was $110,800, also more than in 1995. In contrast, the median value of the maximum-priced home renters could afford was less than $20,000 in both 2002 and 1995. Many renters could not afford any home because of low incomes, little or no savings or other financial assets, or high amounts of debt relative to their income. For more information on this topic, see the Internet site for this report at <www.census.gov/hhes/www/housing/hsgaffrd/hsgaffrd.html>.

Age, Gender, Marital Status, Race, and Ethnicity

Affordability of a home varied by type of household and marital status. Two-thirds (67 percent) of married couples, one-third (33 percent) of male-householder families, one-quarter (24 percent) of female-householder families, and one-third (33 percent) of all unrelated individuals could afford a modestly priced home in 2002. For families, the ability to afford a modestly priced home was also related to whether they had children under the age of 18. For married couples with children under 18, 59 percent could afford a home, while about three-quarters (74 percent) of their counterparts with no children under 18 could afford a home (Table 2).

Homeownership affordability varied by race and ethnicity when similar family types are compared.[5] About 1 out of 5 (19 percent) non-Hispanic White married couples who rented could qualify to buy a modestly priced home,[6] while 1 in 20 Black married couples who rented could buy a home. About 4 of 5 (82 percent) non-Hispanic White married-couple homeowners could afford to relocate to a modestly priced home in the area where they lived, compared with about 6 of 10 (66 percent) Black married-couple owners.

Three percent of Hispanic married couples who were renters could afford a modestly priced home, compared with 16 percent of non-Hispanic married-couple renters.[7] Hispanic married-couple homeowners could afford to purchase a different modestly priced home 58 percent of the time, compared with 81 percent for non-Hispanic married-couple homeowners.

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

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

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

Table 2.
Affordability of a Modestly Priced Home for Families and Unrelated Individuals by Tenure and Type of Family: 2002

Type of family	Percentage of families and unrelated individuals who could afford to buy		
	Total	Owner	Renter
Married-couple families	67.0	78.9	13.3
With children under 18	58.6	72.4	9.9
With no children under 18	73.9	83.8	17.5
Male-householder families	33.1	53.4	2.7
Female-householder families	23.8	47.5	1.8
Unrelated individuals	33.1	57.0	7.3

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, 2002.

How Affordability Is Constrained by Lack of Income and Debt Payments

According to conventional mortgage underwriting guidelines, the maximum amount that can be allocated to mortgage payments is 28 percent of total income, 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. More details on how these parameters are used to qualify a family or an individual for a mortgage may be found in the source and accuracy statement on the Internet at <www.census.gov/hhes/www/housing/hsgaffrd/hsgaffrd.html>.

Age was also related to affordability. Renters in families who could not afford to buy a modestly priced home were younger (median age of the householder was 37) than all homeowners in families (median age of the householder was 49) and also younger than homeowners in families that could not afford to purchase a different modestly priced home (median age was 41) (Table 3).

Income and Assets

One percent of renter families with income below $25,000 (close to the median for all renter families) could afford a modestly priced home, while 16 percent with incomes of $25,000 or higher could afford to buy. As mentioned previously, three primary reasons prevent families and individuals from qualifying to purchase a home—lack of cash or other financial assets for the down payment and closing costs,

Table 3.
Affordability of a Modestly Priced Home for Families and Unrelated Individuals by Tenure and Median Age: 2002

Type of family	Median age of family households and unrelated individuals		
	Total	Owner	Renter
Total families	**45.4**	**48.6**	**37.2**
Families who cannot afford	38.4	40.4	36.6
Total unrelated individuals	**47.3**	**54.8**	**37.6**
Unrelated individuals who cannot afford	40.4	46.3	36.7

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, 2002.

insufficient income to make the mortgage payments, and other debt payments that reduce the amount of income available for the mortgage payment. Financial assets include equity in a homeowner's present home, cash, and other assets that could be converted into cash.

Of renter families who could not qualify to purchase a modestly priced home, most (67 percent) could not qualify for more than one reason. For example, about 51 percent had both excessive debt and insufficient income for a mortgage, while 16 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 home; 32 percent of owner families could not qualify for this reason.

Increasing Affordability

Three basic ways to increase the affordability of homes are to lower interest rates, to require a lower down payment for home purchasers, and to provide a down payment subsidy to homebuyers. Using SIPP data, it is possible to simulate the potential effects of changing these parameters for owners and renters using conventional financing. In this discussion, the focus will be on using conventional financing for renters purchasing a modestly priced home in 2002.

Decreases of 3 percentage points or fewer from the conventional mortgage interest rate prevailing in 2002 (6.04 percent) had no statistically significant effect on the total number of renters who would have qualified for a mortgage on a modestly priced home (Table 5). 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 renters still might not have enough cash for a down payment and closing costs or might have debt levels that are too high.

More renters would qualify if the required down payment on a home was 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 to qualify for the mortgage and make the payments. Decreasing the required down payment from 5 percent (the minimum assumed for this report) to 2.5 percent would have increased (by about 1 percentage point) the proportion of renters who would qualify for a mortgage. Requiring no down payment would have increased the proportion of qualified renters by about 2 percentage points (Table 5).

Another option to increase the number of renters who would qualify for a mortgage is a down payment subsidy. This approach is the equivalent of receiving a gift from parents, employers, or home sellers, or receiving assistance from nonprofit or government agencies to increase the amount of cash available for a down payment, closing costs, or debt repayment. In 2002, a subsidy of $1,000 would have no statistically 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 1 percentage point; $5,000 by 4 percentage points; $7,500 by 11 percentage points; and $10,000 by 17 percentage points. These subsidy options would require funding from some private, nonprofit, or governmental organizations. One percent of total renters represented 427,450 households in 2002 (Table 5).

Table 4.
Reasons Why Families and Unrelated Individuals Could Not Afford a Modestly Priced Home by Tenure: 2002

Type of problem	Percentage of families who could not afford to buy					
	Families			Unrelated individuals		
	Total	Owner	Renter	Total	Owner	Renter
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cash problem only[1]	37.7	45.1	31.7	21.7	22.9	21.1
Income problem only	10.9	22.6	1.4	12.2	30.1	3.2
Cash and income problems	51.4	32.2	66.9	66.2	46.9	75.8

[1] Includes excessive debt.

Note: Assumes conventional, fixed-rate 30-year financing, with a 5 percent down payment. No report was issued between 1995 and 2002.

Source: U.S. Census Bureau, Survey of Income and Program Participation, 2002.

Increasing Affordability for Minorities[8]

Improving opportunities for homeownership for minority households is a goal of numerous organizations as well as the federal government. For example, the recent Federal American Dream Downpayment Fund (2003) has a program providing small amounts of assistance for first time homebuyers.[9] 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 2002 levels would have no significant effect on the percentage of Black or Hispanic renter families who could qualify for a mortgage for a modestly priced home in 2002. Lowering the down payment to zero, however, would have increased the number of Black or Hispanic renters who could qualify for a mortgage on a modestly priced home by about 1 percentage point[10] (Table 5).

A subsidy of at least $5,000 for the down payment would be required to increase the percentage of Black renters who would have qualified for a mortgage in 2002. A $5,000 subsidy would have increased the number of Black renters qualified for a mortgage by 4 percentage points and a $7,500 subsidy by 11 percentage points. A $10,000 subsidy would have increased the number of Black renters who could qualify for a mortgage by 18 percentage points. One percent of Black renters represented 83,730 households in 2002 (Table 5).

Table 5.
Effects of Possible Policy Changes on the Affordability of a Modestly Priced Home for Total, Black, and Hispanic Renters: 2002

Mortgage requirement	Percentage of renters who could afford to buy		
	Total	Black	Hispanic[1]
Current mortgage requirements[2]	**7.7**	**2.3**	**2.4**
MODIFIED MORTGAGE REQUIREMENTS			
Modified Down Payment			
2.5 percent down payment	8.4	2.8	3.0
No down payment	9.4	3.6	3.6
Modified Interest Rate			
Interest rate 1 percentage point lower	7.7	2.3	2.4
Interest rate 2 percentage points lower	7.9	2.4	2.5
Interest rate 3 percentage points lower	8.1	2.4	2.6
Modified Cash Assistance			
$1,000 down payment assistance	7.9	2.5	2.6
$2,500 down payment assistance	8.6	2.9	3.2
$5,000 down payment assistance	12.1	6.0	5.2
$7,500 down payment assistance	18.9	13.0	11.1
$10,000 down payment assistance	25.1	20.0	16.6

[1] Hispanics may be any race.
[2] Current conventional mortgage requirements in 2002 were 5 percent down, an average fixed rate of 6.04 percent interest, 30-year financing, and no subsidy.

Source: U.S. Census Bureau, Survey of Income and Program Participation, 2002.

Similarly, for Hispanic renters, a subsidy of at least $5,000 was required to raise the percentage who would qualify for a mortgage. A subsidy of $5,000 would have increased the number of Hispanic renters who could qualify by 3 percentage points. A $7,500 subsidy would have increased the number of Hispanic renters who could qualify for a mortgage on a modestly priced home from 2 percent to 11 percent and a $10,000 subsidy from 2 percent to 17 percent. One percent of Hispanic renters represented 74,590 households in 2002 (Table 5).

[8] For this report, Black and Hispanic households are considered minorities.

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

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

For Further Information

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Source of the Data

The population represented (the population universe) in the 2001 SIPP is the civilian noninstitutionalized population living in the United States. The SIPP is a longitudinal survey conducted at 4-month intervals. The data in this report were collected from October 2002 through January 2003. For the 2001 SIPP Panel, approximately 50,500 housing units were in the sample for Wave 1. Of the 40,500 eligible units, 35,000 were interviewed. In Wave 6, 26,600 interviews were obtained from 31,400 eligible units. The institutionalized population, which is excluded from the population universe, is composed primarily of the population in correctional institutions and nursing homes (91 percent of the 4.1 million institutionalized population in Census 2000).

Accuracy of the Estimates

Statistics from surveys are subject to sampling and nonsampling errors. All comparisons presented in this report have taken sampling error into account and are significant at the 90-percent confidence level unless otherwise noted. The 90-percent confidence interval for the difference between the estimates being compared does not include zero. Nonsampling errors in surveys may be attributed to a variety of sources, such as how the survey is designed, how respondents interpret questions, how able and willing respondents are to provide correct answers, and how accurately the answers are coded and classified. The Census Bureau employs quality control procedures throughout the production process to minimize these errors, including in the overall design of surveys, the wording of questions, the review of the work of interviewers and coders, and the statistical review of reports. The SIPP weighting procedure uses ratio estimation, whereby sample estimates are adjusted to independent estimates of the national population by age, race, sex, and Hispanic origin. This weighting partially corrects for bias due to undercoverage, but biases may still be present when people who are missed by the survey differ from those interviewed in ways other than age, race, sex, and Hispanic origin. How this weighting procedure affects other variables in the survey is not precisely known. All of these considerations affect comparisons across different surveys or data sources.

For further information on statistical standards and the computation and use of standard errors, go to <www.sipp.census.gov/sipp/sourceac/S&A01_w1tow6_cross_puf.pdf> or contact John L. Boies of the Census Bureau's Demographic Statistical Methods Division via e-mail at <John.L.Boies@census.gov>.

Additional information on the SIPP can be found at the following Web sites: <www.sipp.census.gov/sipp/> (main SIPP Web site), <www.sipp.census.gov/sipp/workpapr/wp230.pdf> (SIPP Quality Profile), and <www.sipp.census.gov/sipp/usrguide/sipp2001.pdf> (SIPP User's Guide).