

Who Could Afford to Buy a Home in 2004?

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Highlights

- In 2004, about 58 percent (+/- 0.6) of American families (current owners as well as renters) could afford to purchase a modestly priced home 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. A modestly priced home is one that is among the 25 percent least expensive owner-occupied homes in the area where a family lives (Table 1).
- The percentage of families able to buy a modestly priced home was higher in 2004 than in 2002, when about 56 percent (+/- 0.7) could afford to purchase a modestly priced home (Table 1).
- About 8 percent (+/- 0.4) of families who were renting could afford to buy a modestly priced home in 2004—the same as the 8 percent (+/- 0.5) of renters who could afford such a purchase in 2002 (Table 1).
- About 12 percent (+/- 1.6) of non-Hispanic White families who were renting in 2004 could afford a modestly priced home, compared with 4 percent (+/- 1.9) of Black families who were renting (Figure 2).
- Renter families in 2004 were usually disqualified from purchasing a modestly priced home for more than one reason (lack of down payment, excessive debt, or insufficient income). About 72 percent (+/- 1.1) of renter families did not qualify because of multiple reasons (Table 4).
- Down payment assistance would do more to improve the affordability of a modestly priced home for renters than lower down payment requirements (which would increase monthly mortgage payments) or a major reduction in interest rates. Financial assistance would, however, require funding from another source, ideally from a party that has no financial gain from the

transaction, such as employers, 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 for a variety of reasons, such as excessive debt, insufficient cash for a down payment, a poor credit history, 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 some of these factors for different types of households and illustrate how affordability might be changed by varying down payment requirements, changing interest rates, or providing forms of cash assistance to renters in the process of purchasing a home. This report does not examine the effect of credit-paying history, as that information was unavailable. “Home” refers to detached and attached single-family homes and condominium dwellings. Mobile homes are not included in this report.

This is the sixth in a series of reports that attempt to measure changes in homeownership affordability for families and unrelated individuals (current owners and current renters). In this report, unrelated individuals in households are analyzed separately from families as sole purchasers. The data in this report were collected from October 2004 through January 2005 in the third wave (interview) of the 2004 panel of the Survey of Income and Program Participation (SIPP). The represented population (population universe) is the civilian noninstitutionalized population living in the United States. The data collected included reports of income, debts, and

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financial assets. The American Community Survey (ACS) is the source of data on the value of homes (as reported by respondents) for individual states. Income reported in the SIPP in the 4-month collection period is multiplied by 3 to represent annual income.¹ 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 U.S. Census Bureau's housing affordability Web site at <www.census.gov/hhes/www/housing/hsgaffrd/hsgaffrd.html>.

Affordability in 2002 and 2004

In 2004, about 58 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 payment² (Table 1).

This percentage was higher than in 2002 (56 percent)—the last time affordability measures were developed. The percentage of unrelated individuals able to buy a modestly priced home under these conditions were the same in 2004 (34 percent) as in 2002 (33 percent).³ Some of the improvement in affordability was likely due to a moderation in mortgage interest rates and an increase in real household incomes over the 2-year period, as well as a decline in unemployment rates over this period. Ninety-five percent of households that can afford to purchase a home currently own their homes.

The 2004 level of affordability for families coincided with a rise in the homeownership rate. In the fourth quarter of 2002, about 68 percent of American households owned their own home, compared with 69 percent in the fourth quarter of 2004. Over this period of time, the number of owner households increased by 3 percent, from 71.9 million

How Homes Were Priced

Home prices were determined for most states and segmented by whether a home was inside or outside a metropolitan area.⁴ These prices came from the 2004 American Community Survey (ACS) and represent values as reported by respondents. 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 that of half of the owner-occupied homes in the area and above that of 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 2004. 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, debt, and financial assets (Figure 1).

As an example of the range of these housing prices, a modestly priced home in a nonmetro area of Florida was \$85,890 in 2004, while a modestly priced home in a metro area in California was \$268,630. 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 50 states were derived from the 2004 ACS and adjusted for inflation using the CPI-U. The values of all of these homes can be found on the Census Bureau's housing affordability Web site at <www.census.gov/hhes/www/housing/hsgaffrd/hsgaffrd.html>.

⁴ For five states—Arizona, Colorado, Connecticut, New Jersey, and Rhode Island—and the District of Columbia (a state equivalent), home prices were determined at the state level only.

¹ Details on the guidelines for conventional rate lending requirements are available on the U.S. Census Bureau's housing affordability Web site at <www.census.gov/hhes/www/housing/hsgaffrd/hsgaffrd.html>.

² Terms are defined in the text box "How Homes 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 features for mortgages, such as lower interest rates or no down payment, is evaluated in the Increasing Affordability section.

³ Levels of affordability for families in 2002 and 1995 were not different and in 1984 and 2002 levels of affordability for unrelated individuals were not different.

Table 1.
Affordability of a Modestly Priced Home for Families and Unrelated Individuals by Tenure: Selected Years, 1984 to 2004

Year	Percentage of families and unrelated individuals who could afford to buy						
	Total	Families			Unrelated individuals		
		Total	Owner	Renter	Total	Owner	Renter
1984	52.2	60.4	79.6	12.6	33.5	60.2	13.4
1988	51.4	59.7	78.1	14.0	33.9	60.8	12.8
1991	49.4	57.6	75.2	13.1	33.4	59.0	12.2
1993	49.5	57.7	76.5	11.7	33.5	60.8	11.2
1995	48.3	55.6	74.6	9.9	34.3	62.3	10.6
2002	47.9	56.4	73.6	7.8	33.1	57.0	7.3
2004	49.1	58.4	75.7	8.3	34.2	59.8	7.0

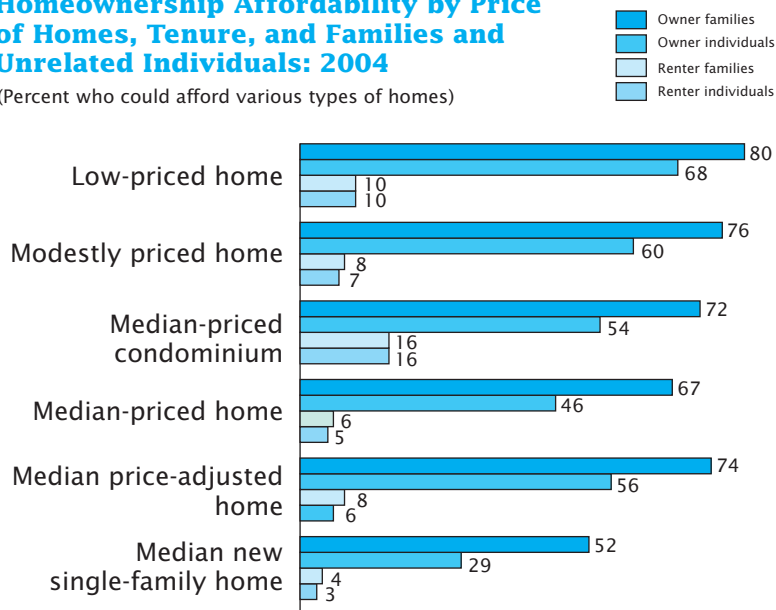
Note: Assumes conventional, fixed-rate 30-year financing with a 5 percent down payment. No report was issued between 1995 and 2002.

Source: U.S. Census Bureau, Survey of Income and Program Participation, 2004.

Figure 1.

Homeownership Affordability by Price of Homes, Tenure, and Families and Unrelated Individuals: 2004

(Percent who could afford various types of homes)



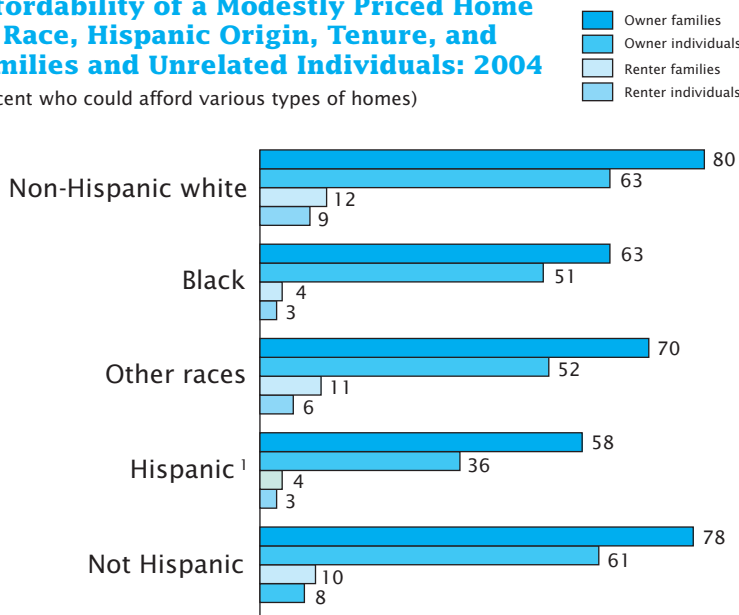
Note: Affordability relates to the ability to qualify for a conventional, 30-year mortgage with a 5 percent down payment. See text for explanation of price categories. For information on sampling and nonsampling error, see <www.census.gov/sipp/source.html>.

Source: U.S. Census Bureau, Survey of Income and Program Participation, 2004.

Figure 2.

Affordability of a Modestly Priced Home by Race, Hispanic Origin, Tenure, and Families and Unrelated Individuals: 2004

(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, 2004.

(revised) in the fourth quarter of 2002 to 74.4 million in the fourth quarter of 2004. The number of renter households decreased by 1 percent from 33.4 million (revised) in the fourth quarter of 2002 to 33.1 million in the fourth quarter of 2004. Between these two dates, many renters—especially those with the highest income, largest assets, and least debt—became homeowners.⁵

The percentage of families who can afford a home is less than the percentage of householders who already own a home. Some households who own homes have experienced changes in their income, debt, and asset ownership that would prevent them from buying another home.

Affordability by Region and Metropolitan Area

Nationally, 49 percent of all families and unrelated individuals could afford a modestly priced home in 2004. For all families and unrelated individuals in the Midwest, more than half (53 percent) could afford a home in this price category in 2004. The proportion in the Northeast was 47 percent and in the South was 51 percent. Affordability was lower in the West, where 44 percent could afford to buy a modestly priced home.

Owners and Renters

The ability to purchase a modestly priced home differed by whether families and unrelated individuals currently owned or rented their residence. For all renters, 8 percent could afford to buy a modestly priced home in 2004 and 2002. By contrast, 71 percent of owners could afford to purchase a different modestly priced home in the same area where they lived in 2004.

⁵ U.S. Census Bureau, Housing Vacancies and Homeownership Annual Statistics for 2003 and 2004 can be found at <www.census.gov/hhes/www/housing/hvs/annual03/ann03t9.html> and <www.census.gov/hhes/www/housing/hvs/annual04/ann04t9.html>.

In 2002, fewer owners (69 percent) could afford a modestly priced home in their own area.

How Much Owners Could Afford

The median value of the maximum amount that owner families could afford to pay in 2004 to relocate to another home using conventional financing was \$265,600, more than in 2002 (\$205,600). For unrelated individuals who owned, the median value of a home they could afford to buy in 2004 was \$143,800, also more than in 2002 (\$110,800). In contrast, most renters could not afford to buy 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, please visit 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. About 70 percent of married couples, 37 percent of male-householder families, 26 percent of female-householder families, and 34 percent of all unrelated individuals could afford a modestly priced home in 2004. For families, the ability to afford a modestly priced

home was also related to whether they had children under the age of 18. Among married couples with children under 18, 62 percent could afford a home, while 76 percent of their counterparts with no children under 18 could afford a home in 2004 (Table 2).

Homeownership affordability varied by race and Hispanic origin when similar family types are compared. About 1 out of 5 non-Hispanic White married couples who rented could qualify to buy a modestly priced home, while 1 in 10 Black married couples who rented could buy a home.⁶ About 84 percent of non-Hispanic White married-couple homeowners could afford to relocate to a modestly priced home in the area where they lived, compared with 75 percent of Black married-couple owners.

Six percent of Hispanic married couples who were renters could afford a modestly priced home, compared with 18 percent of non-Hispanic married-couple renters.⁷ About 63 percent of Hispanic married-couple homeowners could afford to purchase a different modestly priced home, compared with 83 percent of non-Hispanic married-couple homeowners.

⁶ Race is defined by the race of householder.

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

⁸ The difference in the median age of all renters and renters who could not afford to buy a home was not statistically significant.

How Affordability Is Constrained by Lack of Income and Debt Payments

According to traditional 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. Freddie Mac's Affordable Gold and Fannie Mae's Community Home Buyer mortgage programs were designed to allow qualifying low- and moderate-income home buyers a higher payment-to-income ratio than most other mortgage programs. More details of 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 tended to be younger (median age of the householder was 37) than homeowners in families in general (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). The difference in the median age of all renters and renters who could not afford to buy a home was not statistically significant⁸ (Table 3).

Table 2.
Affordability of a Modestly Priced Home for Families and Unrelated Individuals by Tenure and Type of Family: 2004

Type of family	Percentage of families and unrelated individuals who could afford to buy		
	Total	Owner	Renter
Married-couple families.....	70.1	81.0	15.0
With children under 18.....	62.2	75.3	11.1
With no children under 18.....	76.5	85.4	19.9
Male-householder families.....	36.8	61.0	4.3
Female-householder families.....	25.6	51.1	2.1
Unrelated individuals.....	34.2	59.8	7.0

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, 2004.

Table 3.
Median Age of Families and Unrelated Individuals by Affordability and Tenure: 2004

Type of family	Median age of family householders and unrelated individuals		
	Total	Owner	Renter
Total families	46.4	49.3	37.6
Families who cannot afford	38.9	41.1	37.1
Total unrelated individuals	49.1	56.2	40.2
Unrelated individuals who cannot afford	42.1	47.5	39.2

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, 2004.

Income and Assets

Two percent of renter families with income below \$25,000 (close to the median for all renter families) could afford to buy a modestly priced home and 15 percent with income of \$25,000 or higher could afford to buy a modestly priced home. As mentioned previously, the four primary reasons that prevent families and individuals from qualifying to purchase a home are lack of cash or other financial assets for the down payment and closing costs, poor credit history, 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.

Excessive debt may be viewed as a symptom of insufficient income, rather than as insufficient cash. Among renter families who could not qualify to purchase a modestly priced home, most (72 percent) were disqualified for multiple reasons (Table 4). For example, about 53 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. About 33 percent of owner families could not

afford a modestly priced home for multiple reasons, while 30 percent had sufficient income but had a debt level too high to qualify for a mortgage.

Increasing Affordability

Three basic ways to increase the affordability of homes are to lower interest rates, require a lower down payment for home purchases, and provide down payment assistance to home buyers. 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 2004. Other ways to assist potential home buyers

might include financial literacy programs and home-purchase counseling services.

Decreases of less than 3 percentage points from the conventional mortgage interest rate, prevailing in 2004 (5.73 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 to purchase a home if no down payment was required. 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 no statistically significant impact on 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).

Table 4.
Reasons Why Families and Unrelated Individuals Could Not Afford a Modestly Priced Home by Tenure: 2004

Type of problem	Percentage of families and unrelated individuals 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	33.2	42.8	25.9	19.7	23.7	17.9
Income problem only	11.5	23.9	2.0	11.9	29.3	3.9
Cash and income problems ..	55.3	33.3	72.1	68.4	47.0	78.2

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, 2004.

Another option to increase the number of renters who would qualify for a mortgage is down payment assistance. This approach is the equivalent of receiving a gift from parents or employers 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 2004, cash assistance of \$2,500 would have increased the number of renters qualifying for a mortgage by 1 percentage point; \$5,000 by 3 percentage points; \$7,500 by 8 percentage points; and \$10,000 by 12 percentage points. On a large scale, these cash assistance options would require funding from private, nonprofit, or government agencies, optimally entities that do not have a financial stake in the home purchase, because of the possibility of conflicts of interest with the home buyer. One percent of total renters represented 432,590 households in 2004 (Table 5).

Increasing Affordability for Minorities⁹

Improving opportunities for homeownership for minority households has been a goal of numerous organizations as well as the federal government. (For this report, Black and Hispanic households are considered minorities.) Lowering interest rates, reducing the down payment, and offering cash assistance for the down payment are possible ways of expanding opportunities for renters to become owners.

Lowering interest rates by 3 percentage points from their 2004 levels would have no statistically significant effect on the percentage of Black or Hispanic renter families who could qualify for a mortgage for a modestly priced home in 2004. Lowering the down

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.

Table 5.
Effects of Possible Policy Changes on the Affordability of a Modestly Priced Home for Total, Black, and Hispanic Renters: 2004

Mortgage requirement	Percentage of renters who could afford to buy		
	Total	Black	Hispanic ¹
Current mortgage requirements²	7.6	3.3	3.2
MODIFIED MORTGAGE REQUIREMENTS			
Modified Down Payment			
2.5 percent down payment	8.2	3.5	3.5
No down payment	9.2	3.9	3.8
Modified Interest Rate			
Interest rate 1 percentage point lower	7.8	3.5	3.3
Interest rate 2 percentage points lower	8.0	3.5	3.4
Interest rate 3 percentage points lower	8.3	3.6	3.5
Modified Cash Assistance			
\$1,000 down payment assistance	7.9	3.3	3.3
\$2,500 down payment assistance	8.4	3.6	3.6
\$5,000 down payment assistance	10.6	4.9	4.7
\$7,500 down payment assistance	15.4	8.2	8.8
\$10,000 down payment assistance	19.5	11.9	11.1

¹ Hispanics may be any race.
² Current conventional mortgage requirements in 2004 were a 5 percent down payment, an average fixed rate of 5.73 percent interest, 30-year financing, and no subsidy.

Source: U.S. Census Bureau, Survey of Income and Program Participation, 2004.

payment to zero would not have increased the number of Black or Hispanic renters who could qualify for a mortgage on a modestly priced home (Table 5).

Assistance 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 2004. Assistance of \$5,000 would have increased the number of Black renters qualified for a mortgage by 2 percentage points and assistance of \$7,500 by 5 percentage points. Assistance of \$10,000 would have increased the number of Black renters who could qualify for a mortgage by 9 percentage points. One percent of Black renters represented 85,420 households in 2004 (Table 5).

Similarly, for Hispanic renters, assistance of at least \$5,000 was required to raise the percentage of those who would qualify for a mortgage on a modestly priced home. Assistance of \$5,000 would have increased the number of Hispanic renters who could qualify by about 2 percentage points. Assistance

of \$7,500 would have increased the number of Hispanic renters who could qualify by 6 percentage points and assistance of \$10,000 by 8 percentage points. One percent of Hispanic renters represented 73,410 households in 2004 (Table 5).

For Further Information

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Source of the Data

The represented population (the population universe) in the 2004 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 2004 through January 2005 in Wave 3 of the 2004 SIPP. For the 2004 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 3, 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 error. All comparisons presented in this report have taken sampling error into account and are significant at the 90 percent confidence level unless otherwise noted. This means 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—including in the overall design of surveys, the wording of questions, review of the work of interviewers and coders, and the statistical review of reports—to minimize these errors. 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 information on sampling and nonsampling error, please visit www.census.gov/sipp/source.html.

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.

For further information on statistical standards and the computation and use of standard errors, please visit www.census.gov/sipp/sourceac/S&A04_W1toW7S&A-7.pdf or contact Sarah Tekansic of the Census Bureau's Demographic Statistical Methods Division by e-mail at sarah.tekansic@census.gov.

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